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ABSTRACT

This set of materials for high school students explains the Social Security system. It consists of five lessons and an overview lesson that may be taught separately. To support the lessons, a videotape, fact sheets, student handouts, and quizzes are included. Handouts are in large print and are suitable for use as black line masters for transparencies or overhead projectors. Lessons are titled: (1) "Toward the General Welfare: Social Security from the Depression to Today"; (2) "What Makes Social Security Work? The Basic Principles Underlying the Program"; (3) "Will Social Security Be There When I'm Ready To Retire? How the Program Is Financed To Pay Benefits Now and in the Future"; (4) "Who Can Get Social Security Benefits and How? Social Security Is More Than Retirement"; and (5) "Using Social Security in Planning for the Future: Social Security as a Financial Planning Tool." The overview lesson also includes suggested teaching strategies. (Contains selected general references and separate references for each lesson.) (BT)

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SOCIAL SECURITY & YOU

TEACHER'S GUIDE

ED 434 854

HISTORY

PRINCIPLES

FINANCING

BENEFITS

FINANCIAL PLANNING

SO 030 840

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WHY TEACH SOCIAL SECURITY?

Social Security affects everyone, directly or indirectly. Virtually every working American pays Social Security taxes. And one in six Americans receives monthly Social Security benefits.

Yet, Social Security is probably one of the least understood programs in the country. Most people, including students, tend to think of it in terms of retirement, something for the distant future. They are unaware that the program pays important survivors and disability benefits to workers and their families. Or they think disability and premature death are calamities that happen only to other people. In fact, one out of every four female students and one out of every three male students will become severely disabled or die before reaching retirement age. Nearly 28 percent of current Social Security beneficiaries are under age 65.

It is important for people to have a basic understanding of Social Security. They should know what it is, how it works, and how it may help them at various stages in life. Social Security should play a key role in a person's financial planning. It can be the basis for financial security for growing families and for future retirement. It's never too early to start thinking about this.

If you need more information or materials on Social Security, please get in touch with your Social Security office. The people there will be glad to help you.

WHAT IS "SOCIAL SECURITY AND YOU?"

"Social Security and You" is a set of materials for high school students that explains the Social Security system. It consists of five lessons plus an overview lesson that may be taught as a separate session. To support the lessons, a videotape, factsheets, student handouts, and quizzes are included. The handouts are in large print suitable for use as black line masters for transparencies or overhead projectors.

WHO CAN USE "SOCIAL SECURITY AND YOU?"

"Social Security and You" is designed to be used in secondary schools (grades 9 through 12) and is geared to the interest level of young people about to enter the workforce. It also may be useful for adult education classes. It is designed to help students develop a base of knowledge essential for decision–making in today's society and to acquire the skills necessary for successful living.

At the same time, because Social Security is such an integral part of the social, economic, and political development of contemporary America, the course becomes a useful vehicle for study in a broad range of areas. Teachers of social studies, history, government, economics, civics, consumer education, home economics, and vocational/technical education will find "Social Security and You" relevant to these curriculums.

SUGGESTIONS FOR USE

The materials may be used as a whole or in part, depending on classroom needs. Each of the five lessons is designed to stand alone, with its own list of objectives and instructional aids. Each lesson is designed to be covered in one to two 45–minute class sessions. The overview contained in this guide is designed to be taught in one class session.

LESSON PLANS

The lesson plans contain sufficient material to permit the instructor to lead a discussion on the major points, with appropriate references to the factsheets, videotape, and other instructional aids.

Each major point is numbered. Extended exercises are provided for classes that wish more indepth study of a topic.

The length of the lesson depends on the teaching strategy used. For example, by assigning the factsheets for pre–class reading and relying mostly on a teacher–lecture strategy, it is possible to achieve the objectives of a lesson plan within a single class period. One–hour sessions may also be held by using one of the student–centered strategies suggested below to present a lesson, e.g., student presentations or debate formats. However, if the alternative exercise is used in conjunction with the teacher–lecture, the lesson is likely to cover as much as two sessions.

If a teacher is unable to use all five lessons and still wants to use more than the overview lesson, it should be noted that some of the lessons are more appropriate for certain courses than others. The lessons on history and basic principles of Social Security (Lessons I and II) will fit well into history and social studies classes; financing (Lesson III) for government, social studies, economics, and civics classes; and benefits and financial planning (Lessons IV and V) for home economics, civics, consumer education, and similar life–skills courses. Although Lessons IV and V are structured to stand alone, a lesson on financial planning is clearly more instructive following a lesson on Social Security benefits.

FACTSHEETS

Pre–class reading is necessary for effective student participation in the classroom discussion. The factsheets should be duplicated and given to the students before the class, and the students should use them for reference during classroom discussion.

Each factsheet is based on an objective stated in the lesson plan. Thus, Lesson Plan I, with two objectives, includes two factsheets. You may use the factsheets as a reference from which to teach and as a text for students to use for pre–class reading and classroom discussion.

KEY TERMS

The listing of key terms in the individual lesson plans may be assigned as pre–class reading, reviewed at the beginning of the class, and for reference during class discussion.

SELECTED REFERENCES

Included in this guide is a listing of pamphlets and books that may be used for additional reading. The materials are listed according to the lesson they most support, but most of the materials are useful across the board. These materials are available from the Social Security office, or from your library as indicated. The Social Security publications are especially useful for updated benefit and tax figures.

HANDOUTS

The key points of the lessons are listed on reproducible handouts suitable for use as black line masters for transparencies. Alternatively, the key points may be listed on the chalkboard as they are identified during classroom discussion. The key points handouts also may be used with an opaque projector.

VIDEOTAPE

The videotape provides an introduction to Social Security. It presents a basic idea of how the program impacts the lives of people, including young people.

QUIZZES

Each instructional unit includes a quiz that can be used to reinforce the classroom instruction. The quizzes may also be used as a discussion aid.

Note that all materials in "Social Security and You" are designed to be reproduced by users. You are encouraged to make as many copies of print materials and videos as you need. You also may feel free to call any Social Security office for additional materials.

SUGGESTED TEACHING STRATEGIES

The materials permit a variety of teaching strategies to accommodate the interest of the students, their skill level, the type of class, and the time available. For example:

TEACHER–LECTURE

The materials permit the teacher to lead a discussion on the subject using the handouts. The handouts contain highlights of the lesson plans and are useful in those instances when you wish to emphasize these points.

Each lesson plan also includes an alternative exercise that may be used to accomplish the learning objectives. These exercises are designed to be used in place of the teacher–lecture strategy or in conjunction with it. Use of these exercises alone requires that students read the factsheets before class. It is recommended that, to insure familiarity with the material, you briefly review it before launching the class into the exercise.

STUDENT DEBATES

Some of the issues in the material lend themselves to a debate format. Lesson II on the basic principles of Social Security is an example. These principles are basic characteristics of the program and students may develop a greater understanding of how Social Security works by discussing their advantages and disadvantages. Debate issues also are recommended in other lesson plans. If students wish additional reading in preparing for debates, you may use the bibliography.

STUDENT TEACHING

Once you have made the point that Social Security affects each of us directly or indirectly, this strategy has the potential for generating a great deal of interest. The following implementation steps are suggested:

Divide the students into five teams and let each team present a lesson, using the factsheets, handouts, bibliography, and other aids or sources they determine may be useful.

Show the videotape.

Assign a lesson to each team and a date for the presentation.

Give the team all the teaching materials in the kit for the particular lesson—lesson plan, factsheets, and handouts. Discuss how each instructional aid may be used. Also reproduce the bibliography contained in this guide.

Review the learning objectives in each lesson plan with each team. Make it clear that the effectiveness of the assignment will be determined by the extent to which these learning objectives are achieved.

Encourage creativity. Students should be encouraged to use any mode of presentation they wish, and may change any of the materials to meet their needs, including quizzes.

Have each team develop an evaluation form to pass out at the end of its presentation. The evaluation should permit the class members to give their opinions on whether the presentation was successful in accomplishing its objectives. (Such an evaluation may also be accomplished by a quiz or in conjunction with a quiz.) Discuss the results of the evaluation with the team.

BOOK REPORTS

Using the bibliography, assign book reports for extra credit. The book assignment may be related to a specific lesson rather than the entire book, since many of the books are comprehensive and cover many aspects of the program. A book assignment on George E. Rejda's "Social Insurance and Economic Security" may be to report on what Professor Rejda has to say about Social Security financing. Another assignment would cover what he (or another authoritative source) has to say about the history of Social Security. Book reports may be delivered in class to augment classroom discussion.

FIELD TRIPS

Schedule a trip to a Social Security office. Visit a congressional representative to discuss Social Security financing issues.

GUEST SPEAKERS
Invite a Social Security representative to respond to questions you have been unable to answer. Invite several retired persons for a panel on how they used Social Security to plan their retirement, what Social Security means to them, and other insights they may be able to provide about how the program affects their lives. Invite a member of Congress (or his/her staff) to address the class on Social Security financing issues the Congress has dealt with in recent years.

STUDENT PAPERS
Have students write papers on a Social Security topic of their choice selected from these materials. Encourage them to use live sources, such as interviews with a Social Security manager, a congressional representative, a person about to retire or a current retiree.

OVERVIEW OF "SOCIAL SECURITY & YOU"

The overview is essentially a summary of the five lesson plans and is designed to provide a capsule view of the subject matter covered.

LESSON 1
HISTORY

TOWARD THE GENERAL WELFARE...
SOCIAL SECURITY FROM THE DEPRESSION TO TODAY.

PURPOSE
This session is designed to provide information on how Social Security originated, the needs it was designed to meet, and why it is important today.

OBJECTIVES
Students, at the conclusion of this session, will be able to:

1. Describe the conditions leading to the passage of the Social Security Act and the problems the Act was designed to address.

2. Explain the major changes in the program resulting in today's Social Security program.

MAJOR POINTS COVERED

The major points made in the lesson are as follows.

Social Security resulted from lessons learned during the Great Depression:

Need for support for the aged.

Family no longer able to protect itself from external economic forces in an industrialized society.

Only limited state programs and private charity existed to help the elderly, widows, and orphans.

Social Security Act passed August 14, 1935, as the first federal effort to cope with poverty and economic insecurity. It consisted of:

Unemployment Insurance

Public Assistance

Old–Age Benefits

Public Health Programs

The program has grown to meet changing needs:

1939–Survivors and dependents insurance
1956–Disability insurance
1965–Medicare

While all of these programs still exist today, the Old–Age, Survivors and Disability programs became known as Social Security. The health insurance program is known as Medicare and is administered by the Health Care Financing Administration.

In 1972, the state–administered public assistance programs for the aged, blind, and disabled were transferred to the federal government under the Social Security Administration. The resulting federal program, Supplemental Security Income (SSI), provides a nationwide, uniform floor of income protection for people 65 and over, or blind, or disabled with limited income and resources. It is funded from federal general revenues, not the Social Security taxes.

Today, Social Security is the nation's primary means of providing a continuing income to a family when a worker becomes disabled, retires, or dies.

LESSON 2
PRINCIPLES

WHAT MAKES SOCIAL SECURITY WORK?

PURPOSE
This unit covers the basic principles that underlie the program.

OBJECTIVES
At the conclusion of this lesson, the student will be able to:

Explain five of the basic principles that underlie the Social Security program.

MAJOR POINTS COVERED
The following points are covered.

STATUTORY RIGHT
A worker's entitlement to Social Security is based on past work and is a statutory right. There is no test of need.

COMPULSORY
Workers are required by law to participate in the program. If it were not compulsory, those who need it most would be the least likely to replace it with private resources.

CONTRIBUTORY
Social Security is financed primarily from the taxes that workers (and the self–employed) pay, matched by employers. The fact that the program is financed by those who will receive benefits is credited with its widespread public acceptance and support.

WORK–RELATED
Taxes and benefits are related to a worker's level of earnings during working years. In general, the higher a person's earnings, the higher the benefits.

WEIGHTED BENEFITS
The benefit formula is weighted in favor of workers with lower average lifetime earnings. The program also is weighted in favor of workers with families by providing benefits to a worker's family based on his or her work under Social Security.

LESSON 3

FINANCING

WILL SOCIAL SECURITY BE THERE WHEN I'M READY TO RETIRE?

PURPOSE

This lesson is designed to help the students understand how the Social Security system is financed to pay benefits now and in the future.

OBJECTIVES

Students will be able to:

Explain how their Social Security taxes are determined.

Describe how Social Security is financed to pay benefits now and in the future.

MAJOR POINTS COVERED

The following points are covered.

Social Security benefits are financed through taxes from employees, employers, and the self–employed.

A portion of every dollar earned—up to a certain maximum amount—is deducted from a worker's pay for Social Security. And the money can be used only to pay Social Security benefits and to help run the program. (For current tax rates see Social Security publication, *Understanding The Benefits*, available from Social Security by calling 1–800–772–1213.)

Social Security beneficiaries who have high outside income in addition to their benefits (about 15–20 percent of all beneficiaries) pay income tax on a portion of their benefits to help finance the program.

There are Social Security trust funds which are accounted for separately in the federal budget. There is a reserve to pay benefits in case of a temporary shortfall in tax income and to help pay future benefits.

The system functions like a pipeline, with workers paying in one end and beneficiaries receiving at the other. As workers become disabled, retire or die, they and/or their families move to the receiving end of the pipeline.

Since 1983, the trust fund reserves have increased in anticipation of more beneficiaries and fewer workers in the next century.

The buildup of the reserves has raised a public debate about how they should be used. However, the reserves are not a "surplus," because they are designed to help pay benefits in the future.

LESSON 4
BENEFITS

WHO CAN GET BENEFITS AND HOW

PURPOSE
This segment is designed to give students an understanding of the types of benefits available and how to get them.

OBJECTIVES
At the conclusion of this lesson, the student will be able to:

Name the types of Social Security benefits and how to qualify for them.

Explain the reasons they need a Social Security number and how to get one.

MAJOR POINTS COVERED
The following points are covered.

Social Security pays monthly cash retirement, survivors, and disability benefits to workers and their families. Medicare, which is administered by the Health Care Financing Administration, provides help with hospital and medical bills to persons age 65 or older or with long-term disabilities.

RETIREMENT
Today a worker can draw full retirement benefits at age 65 or a permanently reduced amount as early as age 62.

The age for receiving full benefits will gradually increase to age 67 for people who retire in the next century.

Once a person starts receiving benefits, most other types of retirement income will not affect payments (e.g. savings, investments, private insurance). Only earned income (from working) over a certain annual limit affects retirement benefit payments. The annual limit does not apply to beneficiaries age 70 and over. For more details, see the Social Security publication, *Retirement Benefits*.

DISABILITY
Disability benefits are paid to workers who suffer a physical or mental condition that prevents them from performing any significant kind of work and is expected to last at least a year or to result in death. This is a more strict definition of disability than that used by some other programs that also pay for partial disability.

Disability benefits continue as long as a person is disabled and unable to work. They also may continue under certain conditions if a person attempts to work while still disabled until he/she can work on a regular basis. The work does not necessarily have to be the kind of work done before disability—it can be any kind of gainful work found in the national economy.

Benefits also may be paid to the worker's children under age 18 (or 19 if still in high school) or disabled before age 22 who continue to be disabled, and to a wife or husband caring for children under age 16 or disabled. For more details, see the Social Security publication, *Disability Benefits*.

SURVIVORS

Unmarried children under age 18, or 19 if still in high school, or disabled before 22 who continue to be disabled, may qualify for benefits if a parent dies.

A widow or widower may also qualify for benefits if she/he is age 60, or has the worker's child under age 16 or disabled in her/his care, or is disabled at age 50 or later. A divorced spouse may qualify for a benefit if the marriage lasted at least 10 years, or if she/he is caring for the worker's child under age 16 or disabled. (See Social Security publication, *Survivors Benefits*.)

MEDICARE

Most people age 65 or older are eligible for Medicare benefits.

People receiving disability benefits for 24 months or who suffer permanent kidney failure may also receive Medicare coverage.

Medicare has two parts: hospital insurance and medical insurance.

The hospital part of Medicare helps pay the cost of inpatient care and certain kinds of followup care. It is financed by a part of the Social Security tax.

The medical insurance part of Medicare helps pay the cost of doctors' services, outpatient hospital services, and for certain other medical items and services. It is financed partly from monthly premiums paid by those covered, and partly from general revenues of the federal government.

SOCIAL SECURITY CREDITS

Before a worker can get benefits, he/she must have credit for a certain amount of work under Social Security. The amount of work credits needed varies with the type of benefit and the year at which the worker becomes age 62, or the age he/she becomes disabled, or dies. Under current law, no one will need more than 40 credits for any type of benefit.

A young worker and his/her family have disability and survivors protection after the worker has worked under Social Security for at least a year-and-a-half (six credits). For retirement benefits, no one will need more than 10 years of work (40 credits).

A credit of work is based on a specified amount of earnings which increases each year with increases in general wage levels. A worker earns a maximum of four credits a year. The earnings and work credits are recorded under the worker's name and Social Security number in a lifetime earnings record kept by the Social Security Administration.

AMOUNT OF BENEFITS

The amount of the benefit is based on the worker's average annual earnings over his/her working life. In general, the higher the earnings, the higher the benefit.

Benefits increase annually with increases in the cost of living.

LESSON 5

FINANCIAL PLANNING

USING SOCIAL SECURITY IN PLANNING FOR THE FUTURE

PURPOSE

This session is designed to help students understand how to use Social Security in financial planning.

OBJECTIVES

At the conclusion of this lesson, students will be able to:

Identify the form needed to get a benefit estimate and how to use it in financial planning.

Identify the major facts they need to know about Social Security in order to use the information effectively in financial planning.

MAJOR POINTS COVERED

The following points are covered.

The key to financial security is planning—planning that sets goals a person wants to achieve and minimizes risks a person can expect in life.

Social Security is important in financial planning because it helps provide protection against the risks to economic security a worker is most likely to incur—lost earnings due to disability, retirement, or death.

Social Security does not do it all. It provides a base on which people can build financial security for themselves and their families through savings, investments, earnings, insurance, and other means.

To use Social Security in financial planning, a person needs to know:

1. How much a worker and his/her family can expect from Social Security in disability, retirement or survivors benefits. Social Security is designed to replace a portion of the earnings a person loses as a result of disability, retirement, or death.

Low wage earner	60 percent
Average wage earner	42 percent
High wage earner	26 percent

2. How other income affects Social Security benefits. In general, other types of retirement income—pensions, savings, investments—do not affect Social Security benefits. There is a limit on how much earnings a person can have and still collect benefits, however. In addition, another government pension may cause Social Security retirement benefits to be reduced. Workers' compensation and disability benefits from other public programs may affect disability benefits.

3. How Social Security relates to private pensions. In general, pensions from private insurance will not affect Social Security benefits. Note that many employers count Social Security benefits in setting the level of their pension plan benefits.

Retirement planning is an important part of financial planning. It should start as early as possible.

A person should start early to build additional sources of income to supplement Social Security, such as savings, private insurance, a pension, stocks and bonds, rental income, IRA (Individual Retirement Account), and other investments.

You can get a *Personal Earnings and Benefit Estimate Statement* (PEBES) from Social Security that will tell you how much you can expect from Social Security at retirement, or if you become disabled or die. It will also show the earnings credited to your record and the estimated Social Security taxes paid. The form can be requested from the Social Security office.

OVERVIEW LESSON

PURPOSE

The following lesson is designed for teachers who have only a single class period to devote to teaching Social Security. It provides three discussion topics. You may find it more useful, however, to use the overview as an introductory lesson while focusing on one or more of the other five lessons for more indepth information. Since each lesson is designed to be self–sufficient, any one of them may serve as a single unit geared to your particular class. If the overview is used as the sole lesson, the quiz should be assigned as homework.

OBJECTIVES

At the end of this session, students will be able to:

List the benefits that Social Security pays and who can get them.

Explain how to get information from Social Security for financial planning.

Describe how Social Security is financed to pay benefits now and in the future.

MATERIALS

Video

Factsheet #1 from Lesson I

Factsheet #1 from Lesson III

Factsheet #1 from Lesson IV

Factsheet #1 from Lesson V
(Factsheets may be used for pre–class reading, or handed out at the end of class as a basis for homework assignments.)

Handout: "Social Security Facts and Figures"

Quiz

OPENING THE LESSON	State the objectives of the lesson. Ask one or more of the following questions:
	How many students have a Social Security number? Ask them what they use it for. (Answers will probably include part–time job, bank account, tax purposes.)
	Ask female students to stand and form groups of four and male students to form groups of three. Have one student in each group sit down. (Accept volunteers.) Then state that one out of four females will become severely disabled or die before reaching retirement age and one out of every three males will become disabled or die before retirement age. Show videotape.
DEVELOPING THE LESSON	Ask the students how something like the Great Depression would affect workers and their families if it happened today. How would it affect the elderly? Widows? Disabled people? Orphans? Do they find it surprising that young people could qualify for benefits? Do they know anybody receiving Social Security benefits? What kind? Discussion should focus on the difference that Social Security makes, e.g., that Social Security provides financial protection that did not exist at the time of the Great Depression. Discussion should identify who can get benefits, types of benefits paid, effect of benefits on individual and family economic security. You may use Factsheet #1 from Lesson I and Factsheet #1 from Lesson IV for this discussion. Ask the students whether they think Social Security will be around for them when they retire in the distant future. Have them give reasons for their opinions. Do they feel better knowing that the Social Security trust funds are building up reserves for the future? (Students should understand that the projections are used to alert the Congress to adjust the system to meet changing needs; the projections should be viewed as a fire alarm, not a fire; as a warning, not a threat. The students will have ample time to write "the bottom line" for their generation as they become involved as citizens in the responsibilities of government.)

Discussion should focus on the buildup of the trust fund reserves and how they are supposed to be used. Factsheet #1 from Lesson III should be helpful.

CONCLUDING THE LESSON

Discuss the *Personal Earnings and Benefit Estimate Statement* (PEBES). Note that workers may get a copy of the statement by calling Social Security and asking for a Form 7004, and sending the form to the address on the back. A *Personal Earnings and Benefit Estimate Statement* should arrive within weeks. Note that the front of the statement contains information on the earnings a person has credited to his/her Social Security record over the years and the benefits payable on those earnings at disability, retirement or death. The back contains general information on Social Security. Discuss how a person would use this information in financial planning. Refer to Factsheet #1 from Lesson V.

Pass out the quiz and instruct students to complete it as a homework assignment.

Give out factsheet, "Facts and Figures About Social Security." Explain that it contains interesting statistics on Social Security and some of the facts discussed in the class.

In order to improve these materials and make them more suitable for your classroom needs, we need to hear from you. Let us know about your experience with the kit by writing to:

Teacher's Kit
Social Security Administration
P.O. Box 17743
Baltimore, Maryland 21235
FAX 410-965-0696

QUIZ

SOCIAL SECURITY & YOU

Select the answer that best answers the question or completes the statement.

1. If one of your parents retired today, who in your family could qualify for Social Security benefits?
   A. All children under 18, the spouse age 62.
   B. Your grandparents, under certain conditions.
   C. Your mother or father (surviving parent) if she/he is 60 or older.
   D. All of the above.

---

2. If you are under 18 and became disabled today, what type of Social Security benefit could you qualify for?
   A. If the disability continued past age 22, you could receive benefits as an adult disabled child once a parent started receiving Social Security retirement or disability benefits, or dies.
   B. Survivors benefits
   C. Retirement benefits
   D. Medicare

---

3. If one of your parents dies, what type of benefit could you receive if you are under 18?
   A. Retirement benefits
   B. Survivors benefits
   C. Disability benefits
   D. No benefits

---

4. The role that Social Security is designed to play in the lives of families can best be described as follows:
   A. To provide a continuing income when a breadwinner is unable to do so because of retirement, disability, or death.
   B. To fund government family programs.
   C. To pay for benefits for the older members of the family.
   D. To provide for the future of our nation.

---

5. How would you go about getting an estimate today of the benefits you would get from Social Security at retirement, of if you should become disabled, and for your survivors, should you die?
   A. Ask your minister to call Social Security for you
   B. Ask your employer
   C. Call Social Security for a "Personal Earnings and Benefit Estimate Statement"
   D. Call your doctor

6. Social Security benefits are financed mostly by:
   A. Payroll taxes paid by employees, employers, and the self-employed.
   B. The Internal Revenue Service.
   C. The income tax.
   D. Worker's compensation taxes.

---

7. Why is it necessary for you to know about Social Security before you need it?
   A. You need to know what you've got coming from Social Security so that you build on it for full retirement income.
   B. You need to include Social Security in your planning for the future.
   C. Half of the security that Social Security provides is from knowing the protection is there.
   D. All of the above.

---

8. If you lost your Social Security card, what should you do?
   A. Call Social Security for a new one.
   B. Take your number from an old document and continue to use it.
   C. Don't worry about it.
   D. Ask your employer for the number.

---

9. Among the ways Social Security changes to meet changing conditions are:
   A. Benefits automatically increase with the cost of living and wages are indexed to reflect increases in wage levels over your working life.
   B. The wage base rises as wage levels rise, assuring new income into the trust funds without legislating changes in the tax rate.
   C. Annual review by the Board of Trustees assures that any problems will be identified in time to take sufficient action.
   D. All of the above.

---

10. What is the best guarantee you have that Social Security will be there for you when you are ready to retire in the future?
   A. The program is backed by the full faith and credit of the U.S. government.
   B. The program affects too many people for the government to let it die.
   C. The program is backed by the votes of older people, who tend to vote.
   D. All of the above.

QUIZ/ANSWER SHEET

SOCIAL SECURITY & YOU

1.	A	6.	A
2.	A	7.	D
3.	B	8.	A
4.	A	9.	D
5.	C	10.	D

SELECTED REFERENCES

SOCIAL SECURITY ADMINISTRATION PAMPHLETS

There are several publications available from Social Security offices that are especially useful if you need additional information. One publication, *Understanding The Benefits*, provides an overview of Social Security programs and contains current tax rates and benefit amounts. Other publications focus on specific programs, and are entitled *Retirement Benefits, Survivors Benefits, Disability Benefits, Medicare,* and *SSI*. You can get copies from any Social Security office by calling 1–800–772–1213.

GENERAL

SOCIAL SECURITY ADMINISTRATION PUBLICATIONS

The following publications can be ordered from the Superintendent of Documents, U.S. Printing Office, Washington, DC 20402.

Social Security Handbook

Annual Report of the Board of Trustees of the Old–Age and Survivors Insurance and Disability Insurance Trust Funds

Fast Facts and Figures about Social Security

Social Security Programs In The United States

BOOKS ABOUT SOCIAL SECURITY

(Should be available from local libraries)

Ball, Robert M.
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A discussion guide to Social Security with lesson plans.
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Social Insurance and Economic Security
Fifth edition
Prentice–Hall Inc. Englewood Cliffs, NJ 07632, 1994

Mamor, Theodore R.; Mashaw, Jerry L., editors
Social Security: Beyond the Rhetoric of Crisis
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Madison, WI, University of Wisconsin Press, 1966

Brown, J. Douglas
An American Philosophy of Social Insurance: Evolution and Issues
Princeton, NJ, Princeton University Pres, 1972

Cohen, Wilbur J.
The Social Security Act of 1935: Reflections Fifty Years Later
In 50th Anniversary Edition: The Report of the Committee on Economic Security of 1935 and Other Basic Documents Relating to the Development of the Social Security Act, edited by Alan Pifer and Forrest Chisman, Washington, DC, National Conference of Social Welfare

Hickok, Lorena A.
One–Third of A Nation
Urbana, IL, University of Illinois Press, 1981

Manchester, William
The Glory and the Dream
New York, Bantam, 1975

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Albuquerque, NM, University of New Mexico Press, 1988

Nash, Gerald D.
The Great Depression and World War II
New York, St. Martin's Press, 1979

Perkins, Frances
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New York, Harper & Row, 1964

Schlesinger, Arthur M.
The Age of Roosevelt
Boston, Houghton Mifflin, 1957

LESSON 2
PRINCIPLES

Achenbaum, W. Andrew
Shades of Gray; Old Age, American Values and Federal Policies since 1920
Boston, Little Brown, 1983

Burns, Eveline M.
Social Security and Public Policy
New York, McGraw Hill, 1956

Derthick, Martha
Policymaking for Social Security
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Patterson, James T.
America's Struggle Against Poverty 1900–1980
Cambridge, MA, Harvard University Press, 1981

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Chicago, Rand McNally, 1966

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Economics and Social Security
New York, John Wiley & Sons, 1982

LESSON 3
FINANCING

Campbell, Colin D.
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Munnell, Alicia H.
The Future of Social Security
Washington, DC, Brookings, 1977

Schact, John N., ed.
The Quest for Security
Iowa City, IA Center for the Study of the Recent History of the U.S., 1982

Schieber, Sylvester J.
Social Security
Washington, DC, Employee Benefit Research Institute, 1982

U.S. National Commission on Social Security
Social Security in America's Future
Washington, DC, Commission Report, 1981

GAO Report
Social Security: The Trust Fund Reserve Accumulation, the Economy and the Federal Budget
(GAO/HRD–89–44) U.S. General Accounting Office
Washington, D.C. 20548

Hambor, John C.
Economic Policy, Intergenerational Equity, and the Social Security Trust Fund Buildup
Social Security Bulletin
October 1987

Entin, Stephen J.
Social Security Trust Fund Surpluses and The Economy
Study commissioned by the Social Security Board of Trustees, presented September 16, 1988

Anderson, Joseph M.
The Potential Economic and Fiscal Effects of Investment of the Assets of the Social Security Old–Age and Survivors Insurance and Disability Insurance Trust Funds
Study commissioned by the Social Security Board of Trustees, presented September 16, 1988

LESSON 4
BENEFITS

SOCIAL SECURITY ADMINISTRATION PAMPHLETS
(Available by calling Social Security—1–800–772–1213)

Retirement Benefits

Survivors Benefits

Disability Benefits

SSI Benefits

Medicare

Understanding The Benefits

BOOKS
(From local libraries)

Berkowitz, Edward D.
Disability Policies and Government Programs
New York, Praeger, 1979

Chen, Yung Ping
Social Security in a Changing Society
Bryn Mawr, PA, McCahan Foundation, 1980

Feder, Judith M.
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Englewood Cliffs, NJ, Prentice Hall, 1994

Schulz, James H.
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Dover, MA, Auburn House Publishing Co., 1988

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FINANCIAL
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Haber, William with Cohen, Wilbur, J.
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Kingson, Eric R.
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New York, Pharos Books, 1987

Moore, John H., ed.
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Social Security and Pensions in Transition
New York, The Free Press, 1980

SOCIAL SECURITY FACTS AND FIGURES

IMPACT OF SOCIAL SECURITY

About 95 percent of all working people are covered by Social Security. One in six Americans get monthly disability, survivors, and retirement benefits.

The value of just the Social Security survivor protection is worth nearly as much as the face value of all private life insurance in force. Most people age 65 and over have help from Medicare in paying medical bills. Medicare has two parts:

1. Hospital insurance helps pay for inpatient hospital care and certain followup care. It is financed from part of the Social Security tax.
2. Medical insurance helps pay for doctor bills and some other services. It is voluntary and is financed from monthly premiums paid by people enrolled for it and from general federal revenues.

WHAT IS SOCIAL SECURITY?

FOUR–WAY PROTECTION—Disability, survivors, retirement, and Medicare health insurance.

BASE OF INCOME—Social Security partly replaces lost earned income. People should add to Social Security with savings, pensions, investments, insurance, etc.

STATUTORY RIGHT—Benefit rights are defined by law. You do not have to prove need.

WORK RELATED—Entitlement to and amount of benefits are related to your work.

PROTECTION MOVES WITH YOU—Since most jobs are covered, all Social Security credits earned can count toward benefits, no matter how often you change jobs.

INFLATION PROTECTION—Benefits increase automatically as cost of living goes up.

HISTORY HIGHLIGHTS

The first Social Security system was Germany's, established in the 1880's. Today most countries have some form of Social Security.

1935	The U.S. system started with the Social Security Act of 1935 and gradually grew.
1937	The first Social Security taxes were paid, but only six out of 10 workers were covered.
1940	The first monthly benefits were paid to retirees and some family members.
1950's	Coverage was expanded to include nine out of 10 working people.
1965	The Medicare law was enacted providing hospital and medical insurance.

SOCIAL SECURITY FINANCING

SOCIAL SECURITY TAXES—The taxes from today's workers are used to pay current benefits.

ADMINISTRATIVE COST—It is only 1 percent for monthly benefits. This means 99 cents of each Social Security tax dollar will be used to pay benefits.

TAX RATE—Employees, employers, and self–employed people each pay up to a maximum that increases annually.

FINANCIAL STABILITY—Social Security Amendments of 1983 greatly strengthened program financing. They restored financial stability both in the short–run and in the long–term future.

SOCIAL SECURITY NUMBERS

All earnings are recorded under your name and Social Security number on a lifetime record. Future benefits will depend on the accuracy of that record.

Social Security offices have a form you can complete to request a *Personal Earnings and Benefit Estimate Statement*. The statement lists your earnings under Social Security and estimates benefits payable at disability, retirement, or death.

If you don't have a Social Security card, you can apply for one at any Social Security office. You will need proof of age, identity, and citizenship. Apply a few weeks before you need the card.

Social Security Administration
SSA Publication No. 05-10040
September 1997 *(Previous editions may be used)*

NOTE TO INSTRUCTOR

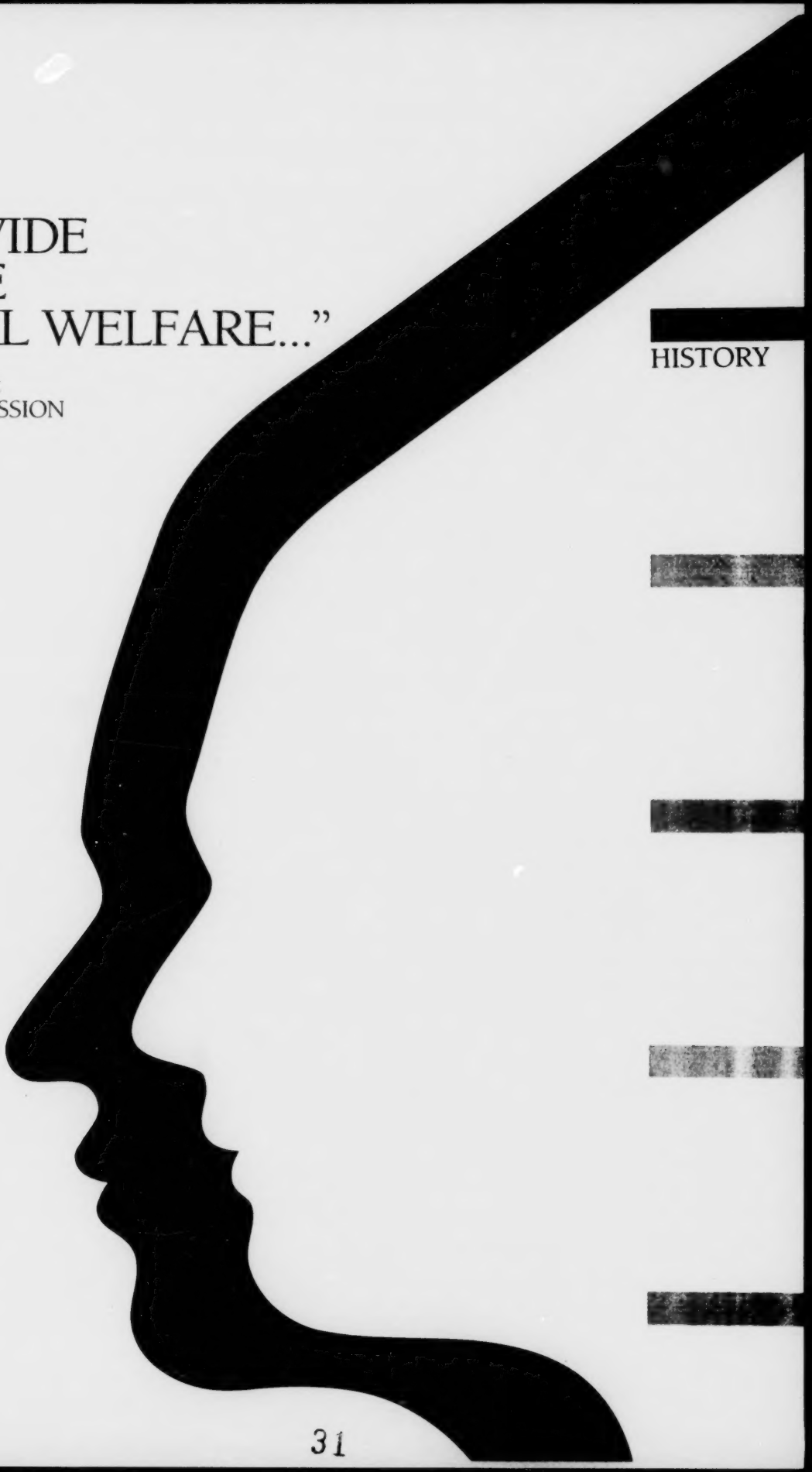
A 25-minute video, "Reel Security," is included in this package. The video includes five segments that correspond to the five lesson plans in the kit, (History, Basic Principles, Financing, Benefits, and Financial Planning). An introductory segment provides an overview of the program. The segments are divided by factoids presenting relevant aspects of Social Security. You may want to view the video before showing it to determine if you need to show it all or just parts of it.

1

"TO PROVIDE FOR THE GENERAL WELFARE..."

SOCIAL SECURITY: FROM THE DEPRESSION TO TODAY

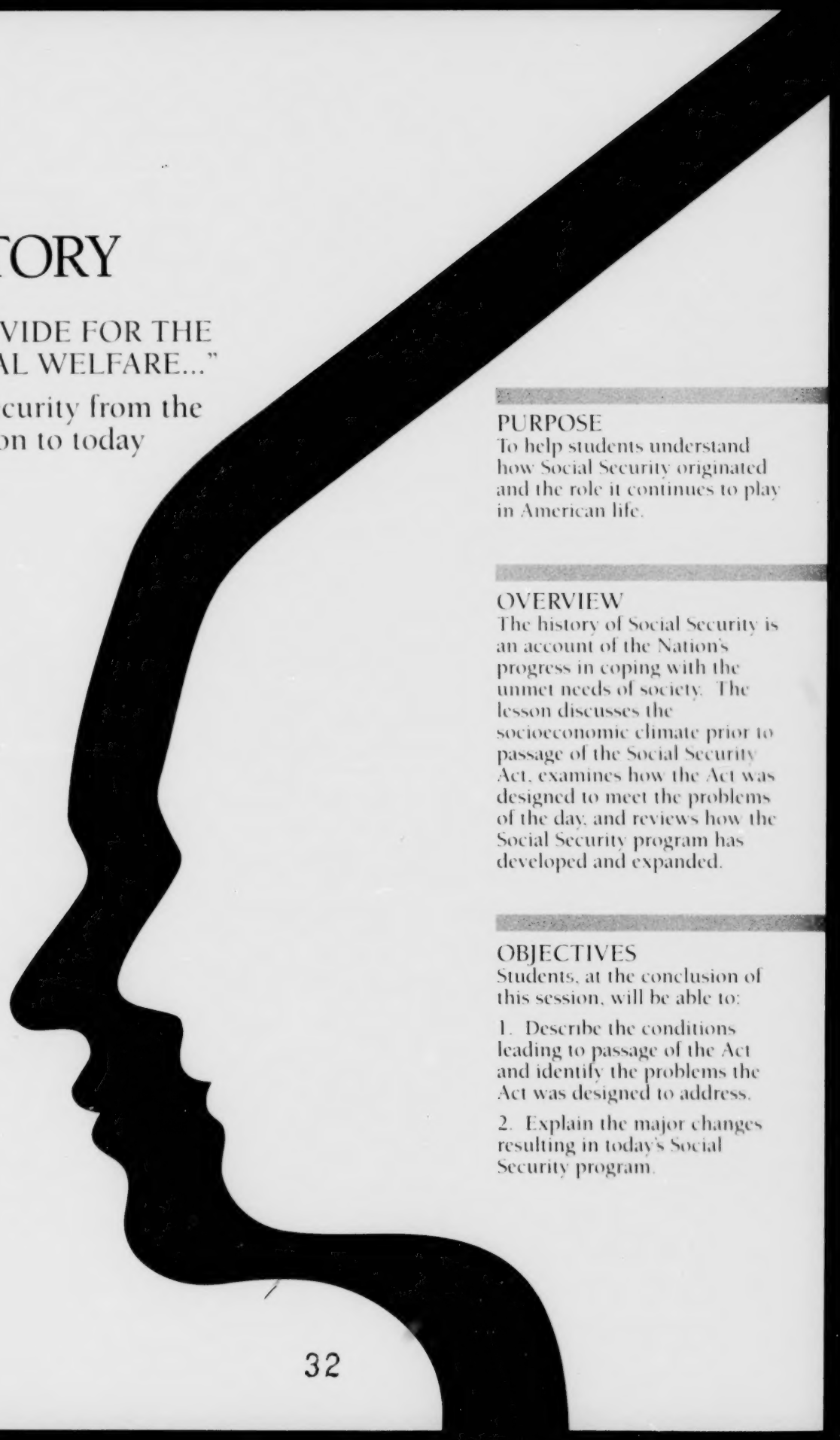
HISTORY



1
HISTORY

"TO PROVIDE FOR THE GENERAL WELFARE..."

Social Security from the depression to today



PURPOSE

To help students understand how Social Security originated and the role it continues to play in American life.

OVERVIEW

The history of Social Security is an account of the Nation's progress in coping with the unmet needs of society. The lesson discusses the socioeconomic climate prior to passage of the Social Security Act, examines how the Act was designed to meet the problems of the day, and reviews how the Social Security program has developed and expanded.

OBJECTIVES

Students, at the conclusion of this session, will be able to:

1. Describe the conditions leading to passage of the Act and identify the problems the Act was designed to address.

2. Explain the major changes resulting in today's Social Security program.

MATERIALS

VIDEOTAPE
(if it has not been shown)

HANDOUTS
Nos. 1 through 7

FACTSHEET #1
Conditions Leading to the Social Security Act

FACTSHEET #2
Social Security: From the Depression to Today

QUIZ

KEY TERMS

ASSISTANCE PROGRAMS
Programs designed to help people who have income and assets below specified levels.

GRANTS-IN-AID
Federal funds provided to states to finance public assistance programs.

MEDICARE
The federal health insurance program for people 65 and over, or who have received Social Security disability benefits for two years or more or who have permanent kidney failure.

SOCIAL SECURITY
The federal program of social insurance designed to provide a continuing income to families when the breadwinner retires, dies, or becomes disabled.

SOCIOECONOMIC
Combining social factors, such as age and race, with economic factors, such as income, to describe events.

SOCIAL INSURANCE
A governmental system based on worker contributions that pays cash benefits to workers who suffer certain risks.

SUPPLEMENTAL SECURITY INCOME (SSI)
A federal assistance program that pays monthly cash benefits to people 65 and over, or blind, or disabled, with limited income and resources. The basic federal payment is supplemented by most states based on differences in regional living costs.

OPENING THE LESSON

Begin by telling students that this session will review the history of Social Security from the Depression to today. State the objectives of the lesson.

Show videotape if it has not already been shown. Write the key terms on the board and discuss. HANDOUT 1

DEVELOPING THE LESSON

1. Based on the video and the factsheets, ask for a definition of Social Security. Who is it designed to help? How? Do they know anyone who is receiving Social Security? How would their lives be different without Social Security?

   Note that the definition should indicate that Social Security is the nation's primary means of assuring a continuing income to a family when the worker retires, dies, or becomes disabled. HANDOUT 3

   Today nearly one out of six people in the country receives Social Security benefits:

   Retired workers and their families

   Disabled workers and their families

   Widows and widowers, surviving children, dependent parents

   These benefits keep millions of people out of poverty.

2. Pass out Handout # 2 and give the students several minutes to read it. Or have a student volunteer to read it with the dramatic flair necessary to convey its tone and the mood of the times. Discuss why the Social Security Act was passed and the conditions it is designed to address. Discussion should focus on the lessons learned from the Great Depression and the conditions giving rise to the Social Security Act. Students may also refer to Factsheet #1.

HANDOUT 2

FACTSHEET 1

What were the conditions leading to the Great Depression and the Social Security Act? Highlight the following:

ECONOMY CHANGED FROM AGRARIAN TO INDUSTRIAL

HANDOUT 4

In 1870, most were independent farmers, tradesmen, artisans.

By 1930's, most were wage earners dependent on jobs in commerce and industry.

THE GREAT DEPRESSION

Dramatized workers' vulnerability to economic forces beyond their control.

Needs too great to be handled by state programs and private charity.

3. Ask what, as elected leaders, they would have done faced with the Great Depression. Support the Townsend Plan? More money to the states? Discuss what was actually done.

HANDOUT 5

SOCIAL SECURITY ENACTED AUGUST 14, 1935
Original Act included:

Old-Age Insurance

Federal-state system of unemployment insurance

Federal Grants-in-Aid to states for assistance to aged, blind, families with dependent children

4. Briefly review the changes in Social Security since the beginning referring to Factsheet #2. Discuss the need for each of the changes and the problems they were designed to alleviate.

FACTSHEET 2

1935 RETIREMENT BENEFITS
Old-Age benefits for workers in commerce and industry.

HANDOUT 6

1939 SURVIVORS AND DEPENDENTS BENEFITS
Recognized that dependents suffer loss of income when worker retires or dies.

1940 FIRST BENEFITS PAID

1950's COVERAGE EXTENDED
To most other jobs, including self-employed.

1956 DISABILITY BENEFITS
Protection against loss of income due to "involuntary retirement" because of disability.

1965 MEDICARE
Protection against risk of high health care costs for people 65 and over. Extended to disabled and people with permanent kidney failure in 1972.

1972 BENEFIT FORMULA INDEXED TO RATE OF INFLATION
To help beneficiaries keep up with the cost of living.

1983 FINANCING STRENGTHENED

Changes made to assure sufficient income into the program into the foreseeable future.

SSI

In 1972, the law was changed to transfer state public assistance programs for the aged, blind, and disabled under the Social Security Act to the federal level, administered by the Social Security Administration. A new federal program was created—"Supplemental Security Income" or SSI. SSI provides:

HANDOUT 7

Monthly federal payments to needy people 65 and over, or blind, or disabled.

Nationwide, uniform floor of income protection for aged, blind, and disabled people.

States supplement basic federal payment based on local standards of need.

Funded from federal general revenues, not Social Security taxes.

CONCLUDING THE LESSON

Conclude the lesson with one or more of the following exercises.

Pass out the quiz and give students 10 minutes to take it. If time permits, exchange test papers and discuss answers.

Ask students to write a description of how conditions would be different for American families if the Great Depression happened today. You may begin the discussion and instruct students to submit the completed papers at the next class.

Note that unemployment benefits, Social Security, and public assistance payments provide a continuing income to families during difficult times. In addition, the benefits help fuel the economy during periods of recession. They give a large segment of the population the means to purchase goods and services, thereby giving retailers, wholesalers, and manufacturers the means to produce and sell more goods and services.

EXTENDING THE LESSON

Ask students what are some of the other social problems this country faces and whether they can be addressed by Social Security. (Homelessness? Health insurance for everyone? Drug abuse? Hunger?)

ALTERNATIVE EXERCISE

The objectives of this lesson could well be achieved through a role-playing exercise. Have the class sit as a joint session of the Congress discussing the Social Security bill just submitted. The debate should focus on whether it is the right response to the economic problems the nation faces. The factsheets should be the basis for the discussion, but students may be encouraged to do outside reading from the references. To ensure that every student participates, divide the class into five groups and assign each group a different proposed solution. Each group will attempt to show how its program will help the people most affected by the economic hardship of the Depression. The proposed solutions may include:

1. Passing the Townsend Act.
2. More money to the states to continue to shoulder responsibility for the welfare of their residents.
3. A complete public assistance program without social insurance features.
4. A complete social insurance program with no public assistance features.
5. The Social Security bill as presented, with its major features of social insurance and public assistance.

Discussion should focus on the advantages and disadvantages of each of these approaches in meeting the problems of economic insecurity in an industrialized society.

QUIZ/ANSWER SHEET — HISTORY

1.	B	6.	B
2.	C	7.	A
3.	D	8.	A
4.	A	9.	A
5.	A	10.	A

KEY TERMS

ASSISTANCE PROGRAMS
Programs designed to help people who have income and assets below specified levels.

GRANTS-IN-AID
Federal funds provided to states to finance public assistance programs.

MEDICARE
The federal health insurance program for people 65 and over, or who have received Social Security disability benefits for two years or more or who have permanent kidney failure.

SOCIAL SECURITY
The federal program of social insurance designed to provide a continuing income to families when the breadwinner retires, dies, or becomes disabled.

SOCIOECONOMIC
Combining social factors, such as age and race, with economic factors, such as income, to describe events.

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A governmental system based on worker contributions that pays cash benefits to workers who suffer certain risks.

SUPPLEMENTAL SECURITY INCOME (SSI)
A federal assistance program that pays monthly cash benefits to people 65 and over, or blind, or disabled, with limited income and resources. The basic federal payment is supplemented by most states based on differences in regional living costs.

THE GREAT DEPRESSION: A CRISIS OF CONFIDENCE

The Great Depression was a time of national crisis. Picture it. The White House, Friday, March 3, 1933, midnight. Across the country the banks of the nation had gradually shuttered their windows and locked their doors. Factories had slowed down their machinery from a deafening roar to a roaring silence. Overnight, people moved sullenly from their homes, into the overcrowded homes of their relatives and loved ones, or out on the highways and byways in ramshackle huts. America. This rich and fertile nation, overflowing with natural wealth in its fields, forest and mines; equipped with unsurpassed technology; endowed with a highly trained and capable workforce, was grinding to a halt.

"We are at the end of our rope," lamented a weary President Hoover. "There is nothing more we can do." This was in tune with Woody Guthrie's song of the times called "End O' My Line."

The worldwide Great Depression in which grasp America was held, had been signaled and triggered by the stock market crash of 1929. People believed that capitalism had totally failed and that democracy was sinking with it, never to be revived.

People stood in breadlines and scavenged in city dumps for food. In West Virginia, mining families who had been turned out of their homes lived in tents along the road and subsisted on pinto beans and black coffee. The New York City Health Department reported that over one-fifth of the pupils in public schools were suffering from malnutrition.

Every freight train moving across the land carried vagabond men and boys who wandered from place to place, living on handouts and odd jobs as they looked for steady work. One out of every four men lacked a job.

Along every highway were bewildered hitchhikers, thumbing their way from here to who-knows-where, looking for a place to start over.

Those who had jobs were not much better off. In factories, mines, steel mills, and textile mills across the land, men labored long hours for wages well below what was needed to earn a living. There was no minimum wage. The top tune of the day was "Buddy, Can You Spare a Dime?"

The Great Depression had an even more devastating impact on the elderly. Unemployment among older workers was estimated at 30 percent. Today, in comparison, the number of people who are unemployed generally remains under 8 percent. Fewer than 18 people out of a hundred were covered by pension plans. And those who had businesses were bankrupt. Many savings institutions had folded, so people could not get their savings. Families and charities found it a very heavy burden to provide for the elderly. But what could they do?

People who were elderly in 1933 had, in earlier years, been farmers. During the Depression, agricultural prices fell, yet farmers were growing the same amount of food. The consequence was a surplus of grains and unprocessed foods that overflowed storage facilities. Meanwhile, millions of Americans were poorly fed and undernourished. And because farmers could not sell their agricultural products to earn money, they could not buy clothing or other necessities.

President Hoover felt impotent. But America was on the eve of an inauguration. What would the new President do? Across the suffering nation, millions clustered around radio sets to find out.

Description based on:
The Age of Roosevelt, by
Arthur M. Schlesinger
Houghton Mifflin,
Boston, Mass. 1957

Social Security is the Nation's primary means of assuring continuing income to a family when the breadwinner retires, dies, or becomes disabled.

One out of six people in the country receives Social Security benefits.

- ☐ Retired workers and their families
- ☐ Disabled workers and their families
- ☐ Widow, widowers, surviving children

These benefits keep millions of people out of poverty.

EARLY HISTORY

AGRARIAN TO INDUSTRIAL

In 1870, most were independent farmers, tradesmen, artisans.

By 1930's, most were wage earners dependent on jobs.

GREAT DEPRESSION

Dramatized workers' vulnerability to economic forces beyond their control.

Needs too great to be handled by state programs and private charity.

SOCIAL SECURITY ENACTED AUGUST 14, 1935

Original Act included:

TWO SOCIAL INSURANCE PROGRAMS

- ☐ Old-Age Insurance
- ☐ Federal-state system of unemployment insurance

THREE PUBLIC ASSISTANCE PROGRAMS

Federal Grants-in-Aid to states for:

- ☐ Assistance to Aged
- ☐ Assistance to Blind
- ☐ Aid to Families with Dependent Children

PROGRAM GROWTH AND DEVELOPMENT

1935	RETIREMENT BENEFITS Old-Age benefits for workers in commerce and industry
1939	SURVIVORS AND DEPENDENTS BENEFITS Recognized that dependents suffer loss of income when worker retires or dies.
1940	FIRST MONTHLY BENEFITS PAID
1950's	COVERAGE EXTENDED To most other jobs, including self-employed.
1956	DISABILITY BENEFITS Protection against loss of income due to "involuntary retirement."
1965	MEDICARE Protection against risk of high health care costs for people 65 and over. Extended to disabled and people with permanent kidney failure in 1972.
1972	AUTOMATIC COST OF LIVING ADJUSTMENT FORMULA ESTABLISHED To help beneficiaries keep up with cost of living.
1983	FINANCING STRENGTHENED Changes made to assure sufficient income into the program into the foreseeable future.

SUPPLEMENTAL SECURITY INCOME (SSI)

Monthly federal payments to needy people 65 and over, or blind, or disabled.

Provides nationwide, uniform floor of income protection for aged, blind, and disabled people.

States supplement basic federal payment based on local standards of need.

Funded from federal general revenues, not the Social Security trust funds.

FACTSHEET

"TO PROVIDE FOR THE GENERAL WELFARE..."

THE CONDITIONS LEADING TO THE PASSAGE OF THE SOCIAL SECURITY ACT AND THE PROBLEMS THE ACT IS DESIGNED TO ALLEVIATE

On August 14, 1935, the Social Security Act was enacted ... "To provide for the general welfare by establishing a system of federal old-age benefits and by enabling the several states to make more adequate provision..."

The real significance of this Act is that it was the country's first major federal government program to deal directly with the economic security of its citizens. Before then, such matters were handled by states and private sources. Federal action became necessary because neither the states nor private charities had the financial resources to cope with the growing need among the people.

Let's examine some of those major social, economic, and philosophical developments which led, directly or indirectly, to the present American social insurance system.

FROM INDEPENDENCE TO INTERDEPENDENCE

The Social Security Act is an attempt by government to meet some of the serious problems of economic insecurity arising in an industrial society.

Up to 1870, more than half the nation's adult workers were farmers. In the years that followed, however, industry developed rapidly and the economy tended increasingly to be characterized by industrialization, specialization, and urbanization. The result was a nation of more employees working for wages and proportionately fewer independent farmers, artisans, and tradesmen engaged in family enterprises.

In an industrialized society, workers found themselves dependent on outside forces to provide their families with the necessities of life, forces over which they had little influence. Any misfortune that interrupted their current income could mean destitution and poverty. The severe depression of the 1930's dramatized the fact that many American workers were almost universally dependent on factors beyond their individual control for their economic security.

THE SEARCH FOR NEW ANSWERS

Previous methods used to meet the economic risks of unemployment, old-age, death, and disability no longer proved adequate or guaranteed security in the face of nationwide economic disaster. A number of schemes were proposed, most notably that of Dr. Francis E. Townsend, a Long Beach, Calif., physician, who advocated a program of giving people over age 60 $200 a month on the condition they quit working and spend each month's pension within 30 days. Millions of frustrated older people rallied in support of Townsend's plan and, though it was dismissed, political leaders took careful note of the support it had received.

FACTSHEET

"TO PROVIDE FOR THE GENERAL WELFARE..."

Beginning in 1932, the federal government took a number of emergency steps to meet the economic hardships of the depression. These included loans, then grants to states to pay for direct relief and work relief. Then, special federal emergency relief and public works programs were started. However, it became clear that these measures were not inducing the kind of economic recovery required.

In 1934, President Roosevelt appointed a special committee composed of Cabinet members and Cabinet-level advisers to study the long-term problems highlighted by the Depression. The Committee on Economic Security favored a social insurance approach to the problems. Such programs had started in Europe in Germany in 1848 under Kaiser Wilhelm, who established a contributory old-age pension system requiring wage earners and their employers to contribute to a fund for the aged. By 1930, 11 European countries had compulsory unemployment insurance laws. In this country, workers compensation programs operated by the states since 1911 represented its sole experience with social insurance programs.

SOCIAL SECURITY LEGISLATION

In 1935, President Franklin D. Roosevelt proposed to Congress long-range economic security legislation embodying the recommendations of the Committee on Economic Security. There followed the passage of the Social Security Act, signed into law on August 14, 1935. This law established two social insurance programs on a national scale to help meet the risks of old age and unemployment: a federal system of old-age benefits for retired workers who had been employed in industry and commerce; a federal-state system of unemployment insurance.

The choice of old-age and unemployment as the risks to be covered by social insurance was a natural development, since the depression had wiped out much of the lifetime savings of the aged and had reduced opportunities for gainful employment.

The law also provided for federal grants-in-aid to the states to help them give financial assistance to three groups of needy persons—the aged, the blind, and dependent children. It established other federal grants to enable states to extend and strengthen maternal and child health services, services for crippled children, and child welfare services.

FACTSHEET

SOCIAL SECURITY: FROM THE DEPRESSION TO TODAY

THE MAJOR CHANGES RESULTING IN TODAY'S SOCIAL SECURITY PROGRAM

Let's take a look at the very basic but most important elements of Social Security, when they occurred, and the problems they were designed to resolve.

1935	RETIREMENT BENEFITS Protection against the loss of income due to retirement in old-age. Benefit was for worker only. Designed to replace a part, not all, of the wages lost due to inability to work because of old age. Covered only limited number of workers in commerce and industry.
1939	SURVIVORS AND DEPENDENTS BENEFITS Recognized that dependents also lose income when worker retires or dies.
1940	FIRST MONTHLY BENEFITS PAID
1950's	COVERAGE EXPANDED Coverage expanded rapidly during the 1950's from limited number of jobs in commerce and industry to include most jobs in the economy. Today nine out of 10 jobs are covered.
1956	DISABILITY BENEFITS Recognized risk of "premature retirement" because of disability. State and private provisions for disabled inadequate.
1965	MEDICARE Federal health insurance to provide protection against cost of health care in old age. In 1972, extended to people under 65 receiving Social Security disability benefits for 24 months, and to people with permanent kidney failure. Two parts—Part A for hospital bills and Part B for doctor bills and other bills not paid by hospital coverage.
1972	BENEFIT FORMULA INDEXED TO COST-OF-LIVING To help benefits resist inflation.
1972	SUPPLEMENTAL SECURITY INCOME (SSI) In 1972, the law was changed to transfer state public assistance programs under the Social Security Act for the aged, blind and disabled to the federal level, administered by the Social Security Administration. A new program was created—"Supplemental Security Income" or SSI. SSI payments provide a nationwide, uniform floor of income protection for aged, blind, and disabled persons. The program makes monthly cash payments to people in these categories with limited income and resources. The states supplement the federal payment based on regional standards of need. SSI is financed from the federal general revenues, not from Social Security taxes.
1983	STRENGTHENED FINANCING OF SOCIAL SECURITY Legislation implementing the recommendations of a bipartisan Social Security Commission provided for sufficient income into the program for the foreseeable future.

QUIZ — HISTORY

Select the answer that best answers the question or completes the statement.

1. Social Security payroll taxes help pay for the following benefits:
   A. SSI, survivors, retirement, veterans
   B. Retirement, survivors, disability, Medicare
   C. Unemployment, retirement, burial fees
   D. Worker's compensation, SSI, recreation fees

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2. Before the federal government accepted responsibility for programs to provide for the financial security of American citizens, such matters were handled by the following:
   A. Foreign interests
   B. Military
   C. States and private charities
   D. Banks

---

3. The following best describes the conditions that existed during the Great Depression that prompted the Social Security Act.
   A. Widespread unemployment
   B. Businesses went bankrupt, banks failed
   C. The elderly, widows, and orphans suffered the most
   D. All of the above

---

4. The lesson that we learned from the Great Depression is best described as:
   A. That, in an industrial economy, the worker has less control over his/her financial security and government has to play a role.
   B. That charity begins at home.
   C. That states don't care enough to do the job.
   D. That most workers can take care of their own families.

---

5. Disability benefits were added to the Social Security Act:
   A. To help workers who had to "retire prematurely" because of a disability.
   B. To make it easier for people to retire early.
   C. To help people with short-term health problems.
   D. To help widows and children.

---

6. Supplemental Security Income (SSI) was established to:
   A. Help rich people.
   B. Help people with limited income and resources.
   C. Help immigrants.
   D. Help middle-income people.

---

7. Benefits were indexed to the cost of living to:
   A. Help benefits resist inflation.
   B. Reduce the cost of the program.
   C. Increase the cost of Social Security.
   D. Pay benefits to more people.

---

8. Medicare was added to the Social Security program to:
   A. Help elderly (and later disabled) beneficiaries with their medical bills.
   B. Help poor people with their medical bills.
   C. Keep rich people from getting poor.
   D. Help everybody.

---

9. The survivors insurance program under Social Security was designed to:
   A. Help widows and orphans.
   B. Help friends of the worker.
   C. Provide burial funds for poor people.
   D. Give people more money.

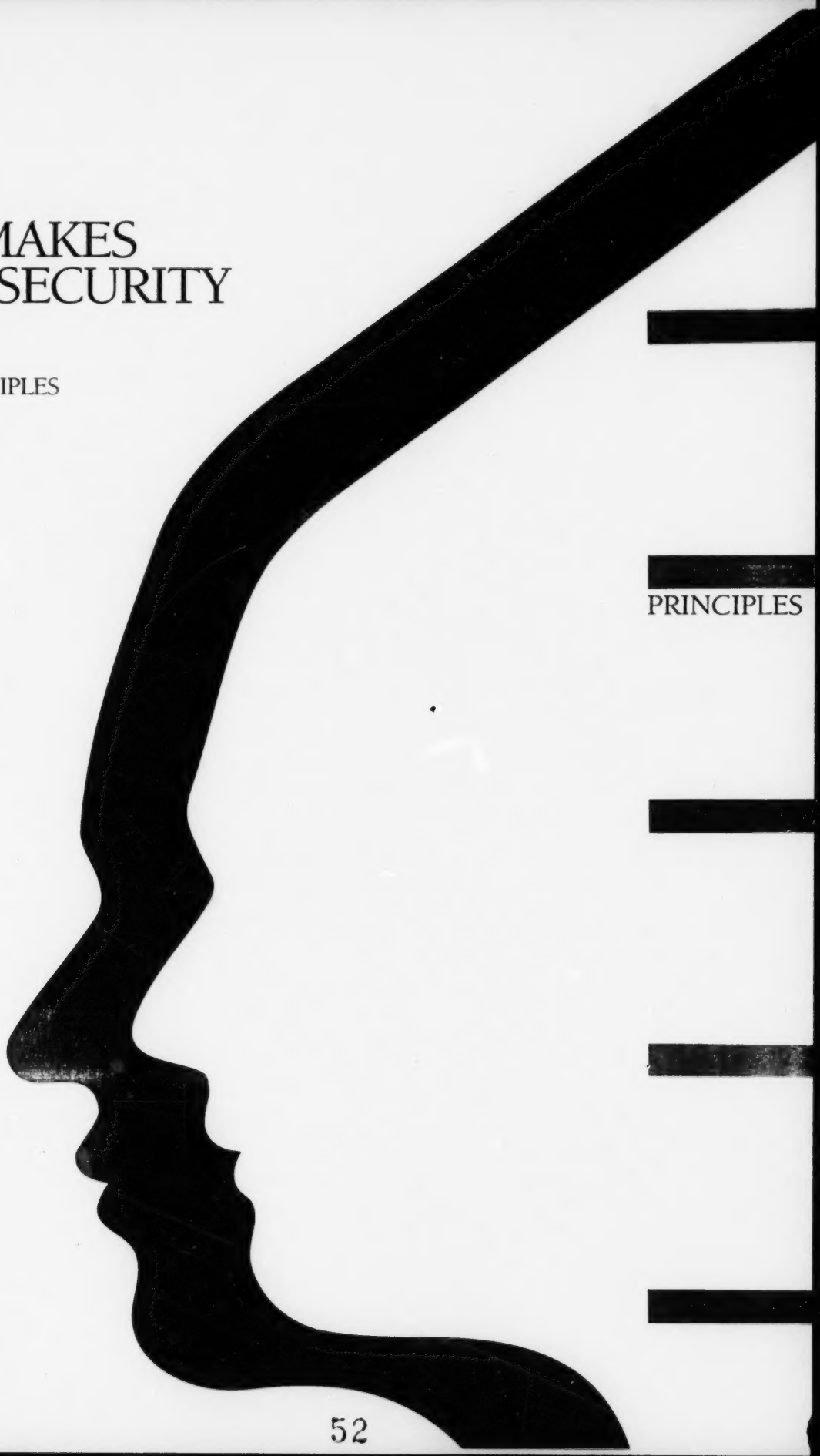
---

10. The best description of the purpose of the Social Security program is as follows:
   A. Social Security is the nation's primary means of providing a continuing income to families when the breadwinner retires, dies, or becomes disabled.
   B. Social Security is the best way to maintain strong economic conditions.
   C. Social Security is how we help poor people.
   D. Social Security is for old people.

2

WHAT MAKES SOCIAL SECURITY WORK?

THE BASIC PRINCIPLES
THAT UNDERLIE
THE PROGRAM.

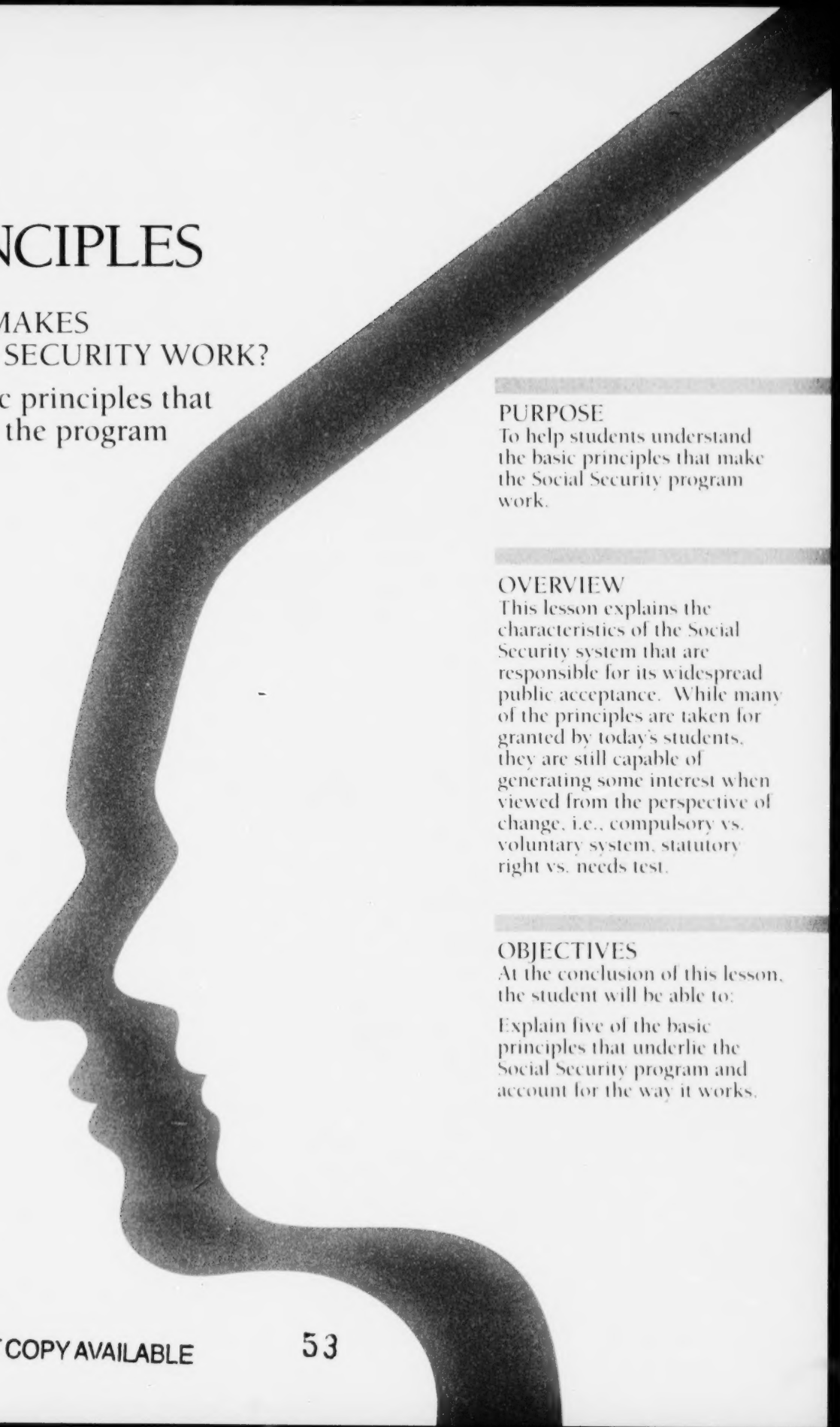


PRINCIPLES

2
PRINCIPLES

WHAT MAKES SOCIAL SECURITY WORK?

The basic principles that underlie the program



PURPOSE

To help students understand the basic principles that make the Social Security program work.

OVERVIEW

This lesson explains the characteristics of the Social Security system that are responsible for its widespread public acceptance. While many of the principles are taken for granted by today's students, they are still capable of generating some interest when viewed from the perspective of change, i.e., compulsory vs. voluntary system, statutory right vs. needs test.

OBJECTIVES

At the conclusion of this lesson, the student will be able to:

Explain five of the basic principles that underlie the Social Security program and account for the way it works.

BEST COPY AVAILABLE

MATERIALS

VIDEOTAPE
(if it has not yet been shown)

HANDOUTS (1-7)

FACTSHEET
What Makes
Social Security Work
QUIZ

KEY TERMS

COMPULSORY
Required by law to participate.

INDIVIDUAL EQUITY
The extent to which the individual gets a reasonable return on his/her investment in Social Security.

NEEDS TEST
A requirement that an individual prove need before assistance may be given.

SOCIAL ADEQUACY
The attempt to provide an adequate level of benefits to program participants based on earnings. Should be distinguished from needs-based public assistance program under which need is conditional to participation.

VOLUNTARY SYSTEM
A method under which each individual decides whether or not to participate.

WEIGHTED BENEFITS
A benefit formula which replaces a higher percentage of earnings for lower-paid workers and families.

WORK-RELATED
Directly associated with an individual's level of earnings at a job or jobs.

OPENING THE LESSON

Begin by stating the objective of the lesson: To understand the basic principles that underlie the program and accounts for the way it works.

HANDOUT 1

Review key terms.

DEVELOPING THE LESSON

1. Discuss what are some of the basic principles that characterize the program.

HANDOUT 2

Statutory right (no needs test)

Work-related benefits

Contributory financing

Compulsory participation

Weighted benefits

2. SOCIAL SECURITY IS COMPULSORY. Discuss. Note the following points.

HANDOUT 3

ADVANTAGES

Benefits assured.

Benefits backed by government.

Benefits automatically rise with cost of living.

Benefits alleviate economic insecurity for individuals, families, society.

Benefits provide continuing income to families.

Lifelong benefits.

DISADVANTAGES

Limits individual choice.

Less money in paychecks.

3. SOCIAL SECURITY BENEFITS ARE PAID AS A STATUTORY RIGHT AND NOT PAID ACCORDING TO NEED.

HANDOUT 4

There is no needs test under the program. What does this mean? Compare with public assistance programs. Do people prefer Social Security to public assistance payments? Why? Why are both needed? Note that public assistance programs help people in need; Social Security and other social insurance programs are designed to prevent need.

ADVANTAGES

Entitlement to benefits based on worker's covered earnings.

Workers do not have to prove need; no stigma attached to benefits.

DISADVANTAGES

Benefits may go to some people who do not need them.

People who do not work under the program may not qualify for benefits.

4. SOCIAL SECURITY BENEFITS ARE WORK-RELATED

HANDOUT 5

What does this mean? Discuss. Have students name other programs that are directly related to work. (Worker's compensation, unemployment insurance, both run by states)

ADVANTAGES

Tax amount based on earnings.

Benefit amount based on earnings.

DISADVANTAGES

People who don't work may not earn benefits.

5. SOCIAL SECURITY IS A CONTRIBUTORY PROGRAM

HANDOUT 6

Discuss. Ask how can the program be both contributory and compulsory. Explain.

ADVANTAGES

Program financed by those who benefit from the program:

Payroll taxes from employees.

Payroll taxes from employers*.

Payroll taxes from self-employed.

DISADVANTAGES

Some employers complain that taxes add a burden to the cost of doing business, limiting the number of workers they can afford to hire, and decreasing the wages they can afford to pay.

6. SOCIAL SECURITY BENEFITS ARE WEIGHTED

HANDOUT 7

Explain based on the following information. Then ask if they think it is fair and discuss.

ADVANTAGES

To meet goal of social adequacy as well as retaining some degree of individual equity:

Lower-paid workers receive higher benefits in proportion to their contribution.

Increased benefits paid to workers with families.

DISADVANTAGES

Higher costs to single workers and high earners.

CONCLUDING THE LESSON

7.

HANDOUT 2

- Summarize the principles with some statement such as: Social Security has endured over the years because it protects against the major hazards of life. Because the general working public has accepted it, the projection is for it to continue well into the future. Give the quiz and then discuss after students have completed it.

*Participation in a national system of social insurance for workers is part of the cost of business all employers pay. Employers are able to list their Social Security taxes as an income tax deduction. They are also permitted to integrate their pension plans with the Social Security benefits due the employee.

ALTERNATE EXERCISE

This lesson lends itself to a debate format. When you give out the factsheets the day before the class, inform the students that they will be required to select a "for" or "against" position on each of the principles discussed. At the beginning of the class, let students select which side they wish to be on and seat students on opposite sides of the room. Discuss each of the principles, and permit students to change sides for each issue. The debate should be based on the information in the factsheets, but students may be encouraged to use the bibliography if they wish.

ALTERNATIVE EXERCISE

The objectives of this lesson could well be achieved through a role-playing exercise. Have the class sit as a joint session of the Congress discussing the Social Security bill just submitted. The debate should focus on whether it is the right response to the economic problems the nation faces. The factsheets should be the basis for the discussion, but students may be encouraged to do outside reading from the references. To ensure that every student participates, divide the class into five groups and assign each group a different proposed solution. Each group will attempt to show how its program will help the people most affected by the economic hardship of the Depression. The proposed solutions may include:

1. Passing the Townsend Act.
2. More money to the states to continue to shoulder responsibility for the welfare of their residents.
3. A complete public assistance program without social insurance features.
4. A complete social insurance program with no public assistance features.
5. The Social Security bill as presented, with its major features of social insurance and public assistance.

Discussion should focus on the advantages and disadvantages of each of these approaches in meeting the problems of economic insecurity in an industrialized society.

QUIZ/ANSWER SHEET — PRINCIPLES

1.	A	6.	A
2.	C	7.	B
3.	D	8.	D
4.	C	9.	A
5.	A	10.	A

KEY TERMS

COMPULSORY
Required by law to participate.

INDIVIDUAL EQUITY
The extent to which the individual gets a reasonable return on his/her investment in Social Security.

NEEDS TEST
A requirement that an individual prove need before assistance may be given.

SOCIAL ADEQUACY
The attempt to provide an adequate level of benefits to program participants based on earnings. Should be distinguished from needs-based public assistance program under which need is conditional to participation.

VOLUNTARY SYSTEM
A method under which each individual decides whether or not to participate.

WEIGHTED BENEFITS
A benefit formula which replaces a higher percentage of earnings for lower-paid workers and families.

WORK-RELATED
Directly associated with an individual's level of earnings at a job or jobs.

FIVE BASIC PRINCIPLES GUIDING SOCIAL SECURITY

- ☐ Statutory right (no needs test)
- ☐ Work-related benefits
- ☐ Contributory financing
- ☐ Compulsory participation
- ☐ Weighted benefits

COMPULSORY PARTICIPATION

The following benefits result from Social Security as a compulsory program in which employees, employers, and the self-employed are required to participate:

Benefits assured

Benefits backed by government

Benefits automatically rise with cost of living

Benefits alleviate economic insecurity

Benefits provide continuing income to families

STATUTORY RIGHT (NO NEEDS TEST)

Entitlement to benefits defined in the law, based on covered earnings

Workers do not have to prove need

WORK-RELATED BENEFITS

Tax amount based on earnings

Benefit amount based on earnings

PAYROLL TAX FINANCING

Program financed by those who benefit from the program:

☐ Payroll taxes from employees

☐ Payroll taxes from employers*

☐ Taxes from self-employed

*Participation in a national system of social insurance for workers is part of the cost of business all employers pay. Employers are able to list their Social Security taxes as a business expense. They are also permitted to integrate their pension plans with the Social Security benefits due the employee.

WEIGHTED BENEFITS

Goal of social adequacy as well as individual equity:

- ☐ Lower-paid workers receive higher benefits
- ☐ Increased benefits paid to families
- ☐ Social Security benefits raised millions of people above poverty level

FACTSHEET

WHAT MAKES SOCIAL SECURITY WORK

THE BASIC PRINCIPLES THAT UNDERLIE THE PROGRAM

Underlying the Social Security program are certain basic principles that guide its development and growth. These characteristics are worth noting because they are the key to how the program accomplishes its goal to provide a base of economic security for the American people. Five of these principles are discussed below.

SOCIAL SECURITY IS COMPULSORY

The question of whether coverage should be compulsory has been considered many times by Congress and various advisory groups. The decision has always been that the program should be compulsory to every extent possible.

Some have argued that the disadvantage of a compulsory program is that it eliminates freedom of choice. The money deducted from paychecks could be used better by individuals to provide for their own economic security.

It is true that, under a voluntary system, some workers who chose not to be covered under Social Security might be able to provide adequately for themselves and their families through private arrangements. But private arrangements may be far more risky since they depend on so many variables over which an individual has little control. They may not be adequate 10 or 20 years in the future.

Social Security benefits are backed by the full credit of the U.S. government. In addition, benefits increase automatically with the cost of living, resisting the erosion of inflation.

Under a voluntary system, some workers who chose not to participate could become disabled, reach old age, or die without adequate funds to support themselves and/or their families. They would need to be supported by public assistance. Social Security, then, would not meet one of its primary objectives of preventing economic insecurity by providing a continuing income after a worker becomes disabled, retires, or dies.

SOCIAL SECURITY BENEFITS ARE PAID AS A STATUTORY RIGHT AND NOT PAID ACCORDING TO NEED

The Social Security program is not and was never intended to be a program to provide benefits based on need. Rather, it is a system of social insurance under which workers (and their employers) contribute a part of their earnings in order to provide protection for themselves and their families if certain events occur. Since each worker pays Social Security taxes, each worker earns the right to receive Social Security benefits without regard to need. This is one of the basic principles of the Social Security program and is largely responsible for its widespread public acceptance and support.

The fact that Social Security benefits go to some people who have high incomes has been a source of criticism. However, these persons pay into the program and play an important role in its financial base. Moreover, benefits of higher earners are subject to the income tax as a result of the 1983 Social Security amendments.

SOCIAL SECURITY BENEFITS ARE WORK-RELATED

Social Security taxes and benefit amounts are related to a person's level of earnings during working years. As people earn more money and pay more in Social Security taxes, they are earning a right to higher benefits. There is, however, a limit on the amount of yearly earnings on which Social Security taxes must be paid and on which program benefit payments are figured.

FACTSHEET

WHAT MAKES SOCIAL SECURITY WORK

Some have argued that this limit favors high earners, who do not have to pay on as high a proportion of their earnings. However, the limit, which automatically increases as wages increase, is necessary. If all the earnings of higher paid workers were taxed and then credited for benefits, the program would have to pay very high benefits.

Another argument against work-related benefits has been that people who do not work for one reason or another (homemakers, disabled children) may not earn the right to benefits. However, in general, such persons are covered as dependents of workers and may receive retirement, survivors, or disability benefits on the workers' earnings records.

SOCIAL SECURITY IS FINANCED BY PAYROLL TAX

The main source of Social Security income is the taxes that employees, employers, and the self-employed pay. This method of financing Social Security—a payroll tax on workers and their employers—remains the primary method of financing the program. The Social Security program has won widespread public acceptance and support largely because it is directly supported by the people who receive benefits from it. Both benefit amounts and Social Security taxes are based on the worker's earnings under the program. This aspect of Social Security helps to avoid any implication that the benefits are a form of government assistance or public charity.

A continuing argument against the payroll tax is that it places a burden on the cost of doing business. It decreases the number of workers a company can afford to hire (and pay matching Social Security taxes) and limits the amount of wages they can afford to pay, the argument goes. However, companies are permitted to deduct the Social Security taxes they pay from their income tax as a business expense. They are also permitted to include Social Security benefits workers expect to receive in the company's pension plans.

Since the Social Security program began, many ideas have been advanced for obtaining additional revenues. However, the Congress and various advisory groups that have studied the program over the years have not endorsed proposals which would alter its basic structure.

SOCIAL SECURITY BENEFITS ARE WEIGHTED

The method of figuring benefits is weighted in favor of workers with low average lifetime earnings and those with families. This is because the program attempts to achieve social adequacy as well as individual equity. The goal of social adequacy assures that individuals receive a level of benefits that reflects their lesser ability to prepare for the risk. The goal of individual equity means that a person receives a reasonable return on his/her investment in Social Security.

Thus, while it is true that higher earners receive higher benefits, lower-paid workers receive higher benefits in relation to their earnings in employment covered by Social Security than do higher-paid workers. (Earnings replacement rates are about 60 percent for minimum wage earners, 42 percent for average wage earners, and 26 percent for high earners.)

In addition, the eligible members of the family of a retired, disabled, or deceased worker are paid benefits up to a family maximum.

As a result, Social Security has made a substantial contribution to raising people's income above the poverty level. It is estimated that if there were no Social Security, there would be almost four aged poor persons for everyone that is now classified as poor. Thus, any additional cost to the program as a result of the weighting of benefits is more than offset by the social gains that result.

QUIZ — PRINCIPLES

Select the statement that best answers the question or completes the statement.

1. The principle that assures that Social Security will have sufficient income to pay future benefits is:
   A. The program is compulsory and can count on future income from taxes.
   B. The program pays benefits when needed.
   C. The program limits individual choice.
   D. Social Security is for everybody.

---

2. Five basic principles that determine how the program works are:
   A. Social Security is free, for everybody, fair, mainstream, voluntary.
   B. The program is regressive, work-related, for old people, for the future.
   C. The program has no needs test, benefits are work-related, participation is compulsory, benefits are weighted in favor of low-income, contributory.
   D. All of the above.

---

3. A basic principle that makes Social Security different from private insurance is:
   A. The program is compulsory (everybody must participate).
   B. Benefits are weighted in favor of low-income workers.
   C. Benefits are based on work.
   D. All of the above.

---

4. It is generally felt that Social Security would not work as a strictly voluntary program because:
   A. Only poor people would pay the premiums so that they could collect benefits.
   B. Only rich people would pay the premiums so that they could collect benefits.
   C. Many people would not participate and would fail to provide protection through other means.
   D. None of the above.

---

5. The primary difference in purpose between a social insurance program like Social Security, which pays benefits if you meet the conditions in the law regardless of need, and a public assistance program like SSI, which has a test of need, is:
   A. SSI is designed to help people in need; Social Security is designed to help prevent need.
   B. Social Security is for old people; SSI is for aged, blind, and disabled people.
   C. Social Security pays lower benefits.
   D. All of the above.

---

6. By "individual equity" we refer to:
   A. The fact that an individual gets a reasonable return on his investment in Social Security.
   B. The fact that an individual can count on Social Security.
   C. The individual's right to benefits as a matter of law.
   D. The individual's choice between Social Security and SSI.

---

7. Two advantages of the work-related principle of Social Security are:
   A. Social Security pays benefits to young people also; everybody must pay taxes.
   B. Tax amounts are based on earnings; benefit amounts are based on earnings.
   C. You must work to earn benefits; you must apply to get them.
   D. None of the above.

---

8. The goal of social adequacy means that:
   A. Benefits are weighted in favor of low wage earners.
   B. Increased benefits are paid to workers with families.
   C. Benefits are paid to workers with high earnings.
   D. A & B above.

---

9. The fact that almost all Americans who are employed must participate in Social Security whether they want to or not means that it is:
   A. Compulsory
   B. Contributory
   C. Work-related
   D. Weighted benefits

---

10. The main source of income for Social Security is:
   A. The taxes from employees, employers, and the self-employed
   B. General revenues
   C. Special trust funds
   D. All of the above

3

WILL SOCIAL SECURITY BE THERE WHEN I'M READY TO RETIRE?

HOW THE PROGRAM IS FINANCED TO PAY BENEFITS NOW AND IN THE FUTURE.

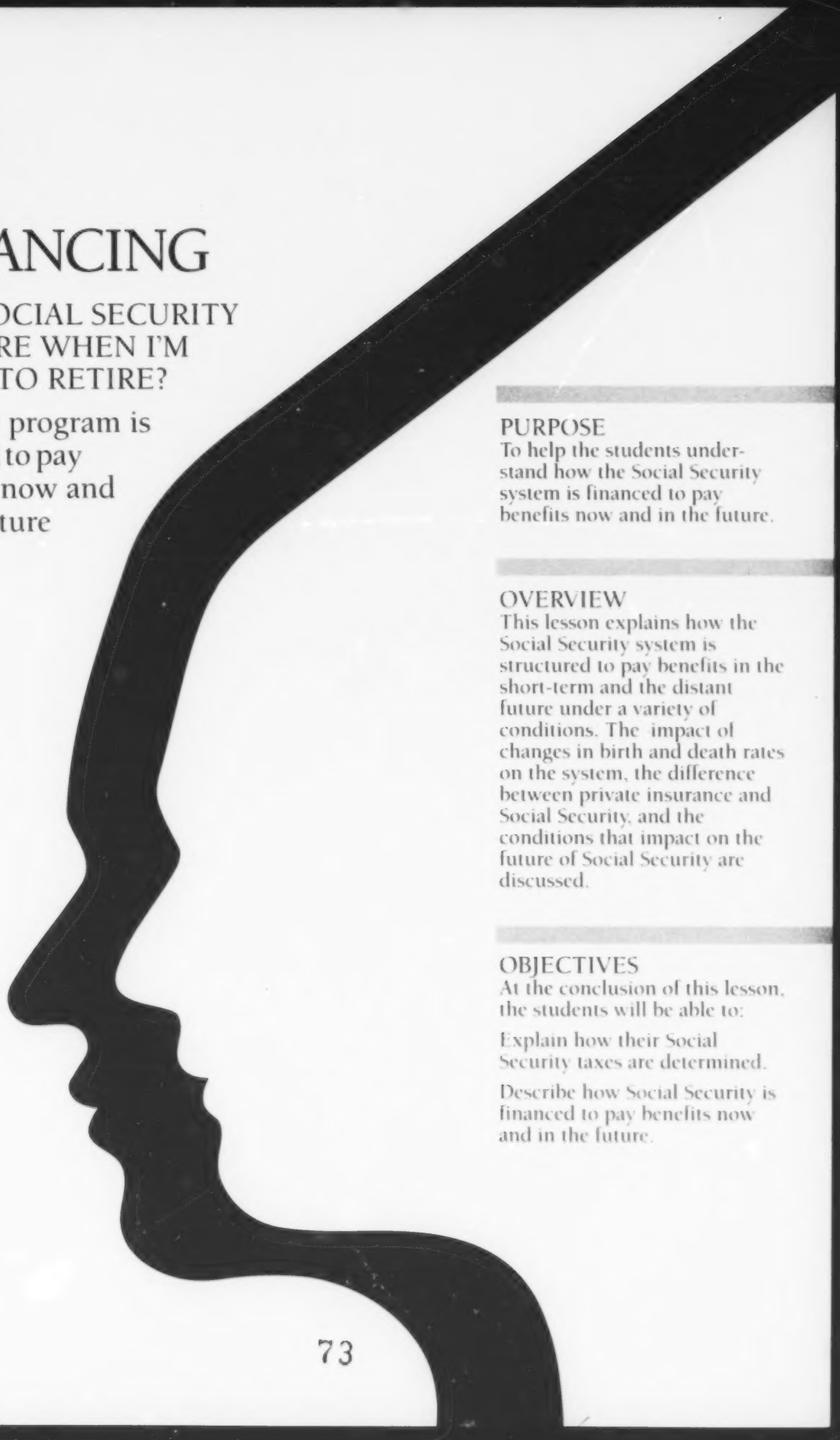
FINANCING

3

FINANCING

WILL SOCIAL SECURITY BE THERE WHEN I'M READY TO RETIRE?

How the program is financed to pay benefits now and in the future



PURPOSE

To help the students understand how the Social Security system is financed to pay benefits now and in the future.

OVERVIEW

This lesson explains how the Social Security system is structured to pay benefits in the short-term and the distant future under a variety of conditions. The impact of changes in birth and death rates on the system, the difference between private insurance and Social Security, and the conditions that impact on the future of Social Security are discussed.

OBJECTIVES

At the conclusion of this lesson, the students will be able to:

Explain how their Social Security taxes are determined.

Describe how Social Security is financed to pay benefits now and in the future.

MATERIALS

VIDEOTAPE
(If it has not already been shown.)

HANDOUTS (1-5)

FACTSHEET #1
How Social Security taxes are determined.

FACTSHEET #2
How Social Security is financed to pay benefits now and in the future.

FACTSHEET #3
Current Financing Issues

QUIZ

KEY TERMS

BOARD OF TRUSTEES
A six-member Board of Trustees annually reports to the Congress on the financial health of the trust funds both in the short and the long-term. The Board consists of the Secretary of the Treasury, the Secretary of Labor, the Secretary of Health and Human Services, the Commissioner of Social Security, and two public appointees who serve four-year terms.

EARNINGS BASE
The maximum amount of earnings subject to the Social Security tax.

FEDERAL INSURANCE CONTRIBUTIONS ACT (FICA)
The law that requires employees and their employers, to pay Social Security taxes on the worker's earnings.

RESERVES
The amount of money remaining in the trust funds at any given time after contributions have been credited and beneficiaries have been paid.

SELF-EMPLOYED
Those persons in business for themselves working on a for profit basis.

SELF-EMPLOYMENT CONTRIBUTIONS ACT (SECA)
The law that requires self-employed persons to pay Social Security taxes on their net earnings.

TRUST FUNDS
Special funds set aside for a purpose specified by law. The following trust funds are used to pay Social Security and Medicare benefits:

a. Old-Age and Survivors Insurance (OASI) — Holds contributions from workers, their employers, and self-employed to pay retirement and survivors benefits.

b. Disability Insurance (DI)— A portion of the Social Security taxes is placed in this trust fund to pay disability benefits.

c. Hospital Insurance (HI)— A portion of the Social Security taxes is placed in the Hospital Insurance trust fund to finance the hospital insurance part of Medicare (Part A) for beneficiaries 65 and over, or who have received disability benefits for two years or more.

d. Supplementary Medical Insurance (SMI)—The SMI trust fund finances Part B of Medicare which pays doctor bills and other medical bills not covered by Medicare's Part A. This trust fund is financed by monthly premiums from enrollees and federal general revenues.

INFLATION
The increase in the price of goods and services without regard to actual value.

FEDERAL DEFICIT
The amount by which the federal government's expenditures exceed its income.

FEDERAL BUDGET
The schedule of income and expenditures used to keep track of federal government operations.

BABY BOOMERS
People born between 1946 and 1964, a period of the highest birth rates in U.S. history.

LIQUIDATION
To turn investments into cash.

PAY-AS-YOU-GO
The term used to describe the method by which Social Security has operated to pay benefits, in which taxes on current workers are used to pay benefits to current beneficiaries with a small reserve to pay benefits when tax collections fell short.

PARTIAL RESERVES
Term used to describe the present level of Social Security reserves, in which the reserve is being built up to help pay future benefits.

FULL RESERVES
Term used to describe the level of reserves the law requires insurance companies to maintain in order to fund all obligations as they are incurred.

GENERAL REVENUES
Refers to nondesignated federal income, generally the income tax.

DEMOGRAPHIC
Refers to population changes and events.

OPENING THE LESSON

State the objectives of the lesson.
Review the key terms.

Begin the lesson by determining if students were aware of where the money comes from to pay Social Security benefits prior to viewing the video. How many have ever held a job? Did they notice the deduction from their paycheck? In the video, were the band members initially reacting only to the Social Security deduction or to the total number of deductions? Why did they focus on the Social Security deduction? (Probably because they think of it as something for old people while the other taxes are something everybody pays. Also, dependents can generally get a refund of state and federal income taxes if they earn below a certain amount.) Be sure that the discussion notes that Social Security benefits are financed from taxes paid by employees, employers, and the self-employed.

DEVELOPING THE LESSON

1. The class can examine a sample payslip noting the deductions for federal and state income tax and Social Security and Medicare taxes, distinguishing them from each other. Note that sometimes Social Security and Medicare taxes are identified as "FICA"—Federal Insurance Contributions Act.

HANDOUT 1

2. Explain that the current and future tax rates are established by the Congress based on anticipated program expenses. Explain that Social Security taxes are paid on earnings up to a certain maximum which increases with increases in average wages. This is called the earnings and benefit base. (Show how the earnings and benefit base has increased over the years using Handout #2.) Medicare taxes are also paid on earnings but (in 1994 and later) there is no upper limit on the amount of earnings subject to this tax. This chart shows the maximum amount of annual earnings subject to the Social Security tax each year (earnings and benefit base) and the percentage at which these earnings were taxed (tax rate).

FACTSHEET 1

HANDOUT 2

Note that the future tax rate is currently scheduled to remain the same. However, the earnings base will increase each year with increases in national wage levels. The result is that, as your wages increase, so does the amount of the Social Security tax you pay, even though you pay at the same rate.

3. Have students calculate the amount of Social Security tax they may expect to pay on the wages they expect to receive in their first jobs after leaving school. (Multiply tax rate by the amount of the annual wages they expect to earn to find out the annual Social Security tax they would pay. You may call your Social Security office for the current earnings base. (It's listed in the telephone directory.)

HANDOUT 2

4. Ask for a description of how Social Security handles the funds it receives, based on Factsheet #2.

FACTSHEET 2

Note that the way Social Security manages its funds is similar to private insurance companies, but there are differences. Ask students to describe the similarities and differences using Factsheet #2.

HANDOUT 3

As with private insurance companies, Social Security funds that are not used to pay benefits are not merely kept in a vault; they are invested, and earnings on investments are used to help pay benefits. The law requires Social Security funds to be invested in U.S. government securities similar to the savings bonds sold to the general public.

Private insurance companies are considered sufficiently financed if they have reserves to cover outstanding obligations at any given time. Social Security is considered sufficiently financed when its scheduled income will meet anticipated expenses into the foreseeable future. This is because, as a social insurance system, it relies on contributions from future earnings, while the private insurance plan cannot.

5. Ask students to describe the "pipeline" view of Social Security financing, with today's workers paying taxes at one end and yesterday's workers drawing benefits at the other. Remember, today's workers will one day be at the receiving end of the pipeline.

In the middle of the pipeline are the Social Security trust funds financed by Social Security taxes. There are three of them; one for Old-Age and Survivors Insurance (OASI), another for Disability Insurance (DI), and another for Hospital Insurance (HI).

This method of financing is intended to maintain a balance between income and outgo of the program and to maintain a small reserve balance to meet temporary shortfalls in tax income. This is viewed as "pay-as-you-go" financing.

Ask students if they can think of any other concept that would describe the way the Social Security program works. (It has also been called a "compact between generations," a social contract between the government and the people.) Can they think of another metaphor like the pipeline that describes the way the system works?

6. As we have stated, the Social Security trust funds serve as a mechanism to maintain a balance between income and outgo of the program and to hold accumulated balances.

Since the 1983 amendments which strengthened the financing of the program, Social Security has been operating under a "partial reserve" method of funding. Reserve funds are being built up not just to handle occasional shortfalls in annual income, but to help pay future benefits.

The baby boomers, the large number of people born between 1946 and 1964, will begin retiring around 2010.

Today, there are three workers for every beneficiary; by the year 2030, there will be two workers for every beneficiary.

Sometime early in the next century, benefit payments will exceed revenues, and Social Security will have to redeem its substantial holdings to meet its obligations when it has redeemed all its holdings. Social Security will need to increase the income into the trust funds to pay benefits to future beneficiaries or reduce program costs.

Policymakers within the Administration and Congress are studying how best to make changes in Social Security taxes and/or benefits to restore long-range financial balance. They hope to implement such changes long before a critical financial situation develops.

Ask students to calculate the year they will retire. Using Factsheet 3, discuss the role the deficit plays in Social Security's future. As long as the government continues to spend more than it takes in, people can legitimately ask where the government will get the money to pay off its obligations to Social Security. (You may also use the bibliography if you wish to discuss this issue in more depth. Call your Social Security office for current information on reserve levels.)

7. Ask if students know what government bonds are. (Certificates sold by the government promising to pay a specified interest on the purchase price of the certificate and to return the original purchase price or "principal" at a specified date in the future.) Note that selling such bonds is the way state and city governments and many corporations also raise money.

FACTSHEET 3

Ask them if they believe the Social Security system should invest in other than government bonds. Point out that many experts believe it would not be good public policy to invest in private markets. Social Security's billions of dollars in reserves would mean the government would control a large share of the nation's investment capital. (Factsheet 3)

CONCLUDING THE LESSON

Based on the information students have received so far (video, factsheet, class discussion), how do they feel about the issue of whether Social Security will be there for them when they retire? Discuss. Cite the following factors:

HANDOUT 5

Strong government commitment to Social Security—the program has been amended frequently to meet changing needs, e.g., the 1983 amendments.

Strong public support for the program—one out of six persons receives Social Security benefits. (Refer to the videotape. Note strong public reaction to the notion of abolishing Social Security.)

The growing number of older people is a political force supporting the program.

Growing financial strength of the system over the next two to three decades as reserves build up.

Universality of Social Security—Almost all countries around the world have Social Security programs. It is the most popular means of providing a basic level of protection to the elderly, to people with disabilities, and to the survivors of someone who has died.

The program has developed and evolved in the past and will undoubtedly continue to evolve in the future as society changes, but the basic structure will endure.

EXTENDING THE LESSON

FINANCING ISSUES FACING SOCIAL SECURITY
In break-out groups, have students discuss each of the following issues based on the information in the factsheets, decide on a position, and present the position to the class.

SHOULD SOCIAL SECURITY BE USED TO BALANCE THE BUDGET?

FACTSHEET 3

Refer to the factsheet and ask students if they think Social Security should be included in the federal budget. What is the impact on the budget? The trust funds? The economy?

The operations of the trust funds are excluded from the federal budget. However, the investment of Social Security reserves in government bonds is equivalent to lending the money to the rest of the federal government—where it is spent to help pay other government expenses. Studies indicate that unless the budget is balanced without taking into account annual Social Security revenues and expenditures, the trust fund build-up will not constitute a real reserve fund, and, in effect, will not be available to pay for future benefits.

SHOULD THE SOCIAL SECURITY ASSETS BE INVESTED IN OTHER THAN GOVERNMENT SECURITIES?
What would be the impact on the trust funds? On the economy?

FACTSHEET 3

IS SOCIAL SECURITY A "RIP-OFF" FOR YOUNG PEOPLE? ARE OLDER AMERICANS "MAKING A KILLING" OFF OF SOCIAL SECURITY AT THE EXPENSE OF THE YOUNG TAXPAYERS?

FACTSHEET 3

Refer to the factsheet for a discussion of the value of Social Security to younger people.

ALTERNATIVE EXERCISE

SOME FACTORS AFFECTING THE FUTURE OF SOCIAL SECURITY

The following list of economic and demographic factors if they occur would have an impact on Social Security financing. Have each student analyze the impact and suggest an appropriate remedial action. Use the completed exercise as a basis for class discussion.

Another way to use this exercise is to give the answer sheet to students and have them comment on the relative merits of the remedial actions taken.

LOWER BIRTH RATE

U.S. birth rate may drop to the current rate in several western European countries by the next century. (1.6 children per woman compared to 2.0 today.)

IMPACT: Fewer workers paying Social Security taxes to pay current benefits. Would deplete reserves faster.

POSSIBLE RESPONSE: Increase taxes; raise retirement ages.

LABOR FORCE GROWTH

Will fall to an annual rate of less than one percent in late 1990's and decline further after the turn of the century.

IMPACT: Slower growth in the number of workers paying taxes that support payment of benefits.

POSSIBLE RESPONSE: Increase taxes, raise retirement ages, increase immigration.

THE NUMBER OF WORKING WOMEN

Proportion of women working outside the home will continue to increase, although at a slower rate than in the past.

IMPACT: More workers paying taxes that support the payment of benefits and increase income into the trust funds.

Also, fewer women drawing benefits as "dependents" (for whom no additional taxes are paid by spouse).

POSSIBLE RESPONSE: Continue to promote equality of women in employment and earnings.

IMMIGRATION

The U.S. is expecting increased immigration over the next decade.

IMPACT: More workers paying taxes to support the payment of benefits and increase income into the trust funds.

POSSIBLE RESPONSE: Promote further increases in immigration to help offset effects of low fertility rates.

QUIZ/ANSWER SHEET — FINANCING

1.	A	6.	A
2.	B	7.	B
3.	B	8.	B
4.	A	9.	D
5.	C	10.	A

INSTRUCTIONS FOR ALTERNATIVE EXERCISE

SOME FACTORS AFFECTING THE FUTURE OF SOCIAL SECURITY

As a member of the Social Security Board of Trustees, you have been presented with the following list of possible economic and demographic factors which would have an impact on Social Security financing. Analyze the impact based on what you have learned about how the Social Security system works. Then state an appropriate response that would offset or take advantage of any impact on the trust funds. You may use your factsheets or any other source you wish.

Example
EXPANSION OF ECONOMY
Gross national product (GNP) annual growth will average two to four percent by 2030.

IMPACT: Higher income into trust funds from taxes from employees, employers, self-employed.

SUGGESTED RESPONSE: Allow trust fund reserves to accumulate toward the payment of future benefits.

LOWER BIRTH RATE:
U.S. birth rate may drop to the current rate in several western European countries by the next century. (1.6 children per woman compared to 2.0 today.)

LABOR FORCE GROWTH
Will fall to an annual rate of less than one percent in late 1990's and decline further after the turn of the century.

THE NUMBER OF WORKING WOMEN
Proportion of women working outside the home will continue to increase, although at a slower rate than in the past.

IMMIGRATION
The U.S. is expecting increased immigration over the next decade.

PAY SLIP

FAST FOOD, INC.				RETAIN FOR TAX PURPOSES		
SOC SEC NO	DIV	MAIN	SUB	WEEK ENDING		CHECK NUMBER
000-00-0000	03	114	52	XX/XX/XX		38765
PAYMENTS				TAX DEDUCTIONS		
RATE	HRS/DAYS	AMOUNT		DESCR	AMOUNT	
$5	36 5	$180.00		Federal Income tax State Income tax Medicare Social Security	$12.86 $ 7.55 $ 2.61 $11.16	
TIPS 0.00		TOTAL $180.00			TOTAL $34.18	
						NET AMOUNT $145.82

MAXIMUM TAXABLE EARNINGS AND TAX RATES SINCE 1937

	Annual maximum taxable earnings		Tax rate (percent)							
			Employer and employee, each				Self-employed person			
Beginning—	OASDI[1]	HI[2]	Total	OASI[3]	DI[4]	HI	Total	OASI	DI	HI
1937	$3,000	—	1.0	1.0	—	—	—	—	—	—
1950	3,000	—	1.5	1.5	—	—	—	—	—	—
1951	3,600	—	1.5	1.5	—	—	2.25	2.25	—	—
1954	3,600	—	2.0	2.0	—	—	3.0	3.0	—	—
1955	4,200	—	2.0	2.0	—	—	3.0	3.0	—	—
1957	4,200	—	2.25	2.0	0.25	—	3.375	3.0	0.375	—
1959	4,800	—	2.5	2.25	.25	—	3.75	3.375	.375	—
1960	4,800	—	3.0	2.75	.25	—	4.5	4.125	.375	—
1962	4,800	—	3.125	2.875	.25	—	4.7	4.325	.375	—
1963	4,800	—	3.625	3.375	.25	—	5.4	5.025	.375	—
1966	6,600	6,600	4.2	3.5	.35	0.35	6.15	5.275	.525	0.35
1967	6,600	6,600	4.4	3.55	.35	.5	6.4	5.375	.525	.5
1968	7,800	7,800	4.4	3.325	.475	.6	6.4	5.0875	.7125	.6
1969	7,800	7,800	4.8	3.725	.475	.6	6.9	5.5875	.7125	.6
1970	7,800	7,800	4.8	3.65	.55	.6	6.9	5.475	.825	.6
1971	7,800	7,800	5.2	4.05	.55	.6	7.5	6.075	.825	.6
1972	9,000	9,000	5.2	4.05	.55	.6	7.5	6.075	.825	.6
1973	10,800	10,800	5.85	4.3	.55	1.0	8.0	6.205	.795	1.0
1974	13,200	13,200	5.85	4.375	.575	.9	7.9	6.185	.815	.9
1975	14,100	14,100	5.85	4.375	.575	.9	7.9	6.185	.815	.9
1976	15,300	15,300	5.85	4.375	.575	.9	7.9	6.185	.815	.9
1977	16,500	16,500	5.85	4.375	.575	.9	7.9	6.185	.815	.9
1978	17,700	17,700	6.05	4.275	.775	1.0	8.1	6.01	1.09	1.0
1979	22,900	22,900	6.13	4.33	.75	1.05	8.1	6.01	1.04	1.05
1980	25,900	25,900	6.13	4.52	.56	1.05	8.1	6.2725	.7775	1.05
1981	29,700	29,700	6.65	4.7	.65	1.3	9.3	7.025	.975	1.3
1982	32,400	32,400	6.7	4.575	.825	1.3	9.35	6.8125	1.2375	1.3
1983	35,700	35,700	6.7	4.775	.625	1.3	9.35	7.1125	.9375	1.3
1984	37,800	37,800	7.0	5.2	.5	1.3	14.0	10.4	1.0	2.6
1985	39,600	39,600	7.05	5.2	.5	1.35	14.1	10.4	1.0	2.7
1986	42,000	42,000	7.15	5.2	.5	1.45	14.3	10.4	1.0	2.9
1987	43,800	43,800	7.15	5.2	.5	1.45	14.3	10.4	1.0	2.9
1988	45,000	45,000	7.51	5.53	.53	1.45	15.02	11.06	1.06	2.9
1989	48,000	48,000	7.51	5.53	.53	1.45	15.02	11.06	1.06	2.9
1990	51,300	51,300	7.65	5.6	.6	1.45	15.3	11.2	1.2	2.9
1991	53,400	125,000	7.65	5.6	.6	1.45	15.3	11.2	1.2	2.9
1992	55,500	130,200	7.65	5.6	.6	1.45	15.3	11.2	1.2	2.9
1993	57,600	135,000	7.65	5.6	.6	1.45	15.3	11.2	1.2	2.9
1994	60,600	(5)	7.65	5.26	.94	1.45	15.3	10.52	1.88	2.9
1995	61,200	(5)	7.65	5.26	.94	1.45	15.3	10.52	1.88	2.9
1996	62,700	(5)	7.65	5.26	.94	1.45	15.3	10.52	1.88	2.9
1997	65,400	(5)	7.65	5.26	.94	1.45	15.3	10.52	1.88	2.9
1998-99	(6)	(5)	7.65	5.35	.85	1.45	15.3	10.7	1.7	2.9
2000 and thereafter	(6)	(5)	7.65	5.3	.9	1.45	15.3	10.6	1.8	2.9

[1] Old-Age, Survivors, and Disability Insurance
[2] Hospital Insurance
[3] Old-Age and Survivors Insurance
[4] Disability Insurance
[5] Earnings Limit Eliminated
[6] Annual increase based on automatic adjustment in proportion to increases in average wage level.

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COMPARING SOCIAL SECURITY FINANCING WITH INSURANCE COMPANIES

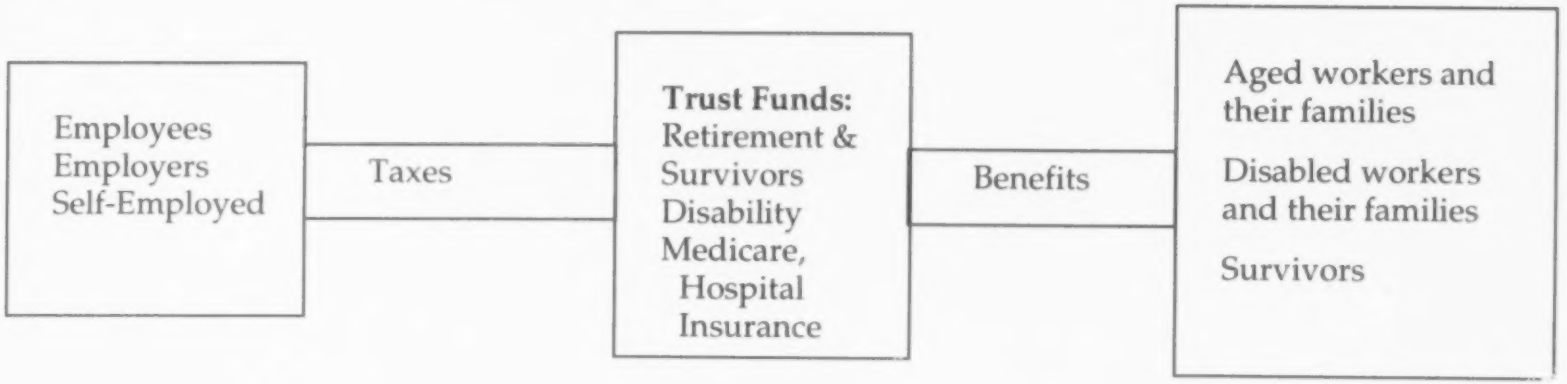
	CONTRIBUTIONS	INVESTMENTS	RESERVES
SOCIAL SECURITY	Taxes Premiums	Government Securities	Partial
COMPANY PENSIONS	Deposits	Securities Stocks/Bonds Real Estate Loans	Full
INSURANCE COMPANIES	Premiums	Securities Stocks/Bonds Real Estate	Full

Social Security is considered soundly financed when estimated tax income scheduled in the law is sufficient to cover estimated outgo over the next 75 years. As a social insurance program, it relies on taxes on future earnings.

The 1977 and 1983 Amendments allowed partial reserves to be built up to help pay benefits in the next century when there will be fewer workers supporting more beneficiaries.

Company pensions and insurance companies must have enough reserves to cover outstanding obligations at any given time.

HOW SOCIAL SECURITY IS FINANCED
(PIPELINE CONCEPT)



REASONS FOR CONFIDENCE IN FUTURE OF SOCIAL SECURITY

Strong government commitment to Social Security.

Aging population provides strong political base.

Strong public support—Most people express support in surveys and nearly one out of six get Social Security benefits.

Growing financial strength of system and buildup of reserves to pay future benefits.

Universality of Social Security benefits—Almost all countries around the world have Social Security programs. It is the most popular means of providing a basic level of protection to the elderly, to people with disabilities, and to the survivors of someone who has died.

FACTSHEET

HOW SOCIAL SECURITY AND MEDICARE TAXES ARE DETERMINED

SOCIAL SECURITY TAXES

The basic idea of Social Security is simple. During working years, employees, their employers, and self-employed people pay Social Security taxes. This money is used only to pay benefits to Social Security beneficiaries and the administrative costs of the program. Then, when today's workers' earnings stop or are reduced because of retirement, disability, or death, benefits will be paid to them and their eligible family members from Social Security taxes.

Part of the "FICA" tax goes for hospital insurance under Medicare. It helps pay hospital bills for workers and eligible family members at age 65 or if they receive Social Security disability benefits for two years or more. A second part of Medicare is Supplementary Medical Insurance. Approximately one-fourth of the cost is financed by premiums paid by people who have enrolled for this protection and the balance is paid by general tax revenues. The Government's share of the cost of the medical insurance part of Medicare comes from general revenues of the Federal Treasury, not from payroll taxes.

All Social Security and Medicare funds not required for current benefit payments and expenses are invested in interest-bearing U. S. Government securities.

HOW TAXES ARE PAID

If you are employed, your Social Security and Medicare taxes are deducted from wages each payday. Your employer matches your payment and sends the combined amount to the Internal Revenue Service.

If you are self-employed and your net earnings are $400 or more in a year, you must report your earnings and pay the self-employment tax each year when you file your Federal income tax return. This is true even if you owe no income tax.

Your wages and self-employment income are entered on your Social Security record throughout your working years. This record of your earnings will be used to determine your eligibility for benefits and the amount of cash benefits that you and your eligible family members will receive.

As long as you have earnings that are covered, you continue to pay Social Security and Medicare taxes—regardless of your age and even if you are receiving Social Security and Medicare benefits.

SETTING TAX RATES

The tax rates are set in the law, and are intended to ensure sufficient income to pay current benefits plus a reserve to make up for any shortfall in income and to help pay future benefits. (See Handout 2 for tax rates.) Social Security and Medicare tax rates are not currently scheduled to change. As noted elsewhere, however, future demographic trends will require either higher tax rates, lower program expenditures, or some combination to keep the Social Security and Medicare programs in financial balance.

FACTSHEET

HOW SOCIAL SECURITY AND MEDICARE TAXES ARE DETERMINED

AUTOMATIC INCREASES IN EARNINGS BASE	The maximum amount of annual earnings subject to Social Security taxes and creditable for Social Security benefits increases each year with increases in earnings levels. This is called the earnings and benefits base. Earnings over the maximum may appear on your Social Security earnings record, but they cannot be used to determine your benefit rate. The maximum rises automatically in future years as earnings levels rise. This ensures that Social Security continues to cover the same proportion of earnings. When the amount of wages on which you pay tax increases, the amount of the tax you pay increases, of course, even if the tax rate does not change. The maximum earnings base has been eliminated for the Medicare Hospital Insurance tax; this tax is applied to all your earnings.
EXCESS EARNINGS AND TAXES	When you work for more than one employer in a year and pay Social Security taxes on wages over the maximum amount, you may claim a refund of the excess amount on your Federal income tax return for that year. If you work for only one employer who deducts too much in taxes, you should apply to the employer for a refund. A refund is made only when more than the required amount has been paid. Questions about taxes or refunds should be directed to the Internal Revenue Service.

FACTSHEET

HOW SOCIAL SECURITY IS FINANCED TO PAY BENEFITS NOW AND IN THE FUTURE

FINANCIAL MANAGEMENT OF TRUST FUNDS

The financial operations of Social Security are handled through two separate trust funds; the Federal Old-Age and Survivors Insurance Trust Fund, used to pay retirement and survivors benefits; and the Federal Disability Insurance Trust Fund, used to finance benefits for disabled workers and their families. Two Medicare trust funds—Hospital Insurance and Supplementary Medical Insurance—are used to finance the Medicare program, which is administered by the Health Care Financing Administration.

The Social Security trust funds are managed by a six-member Board of Trustees, composed of the Secretary of Treasury, the Secretary of Labor, the Secretary of Health and Human Services, the Commissioner of Social Security, and two public appointees who serve four-year terms. The Board of Trustees is required by law to report annually to the Congress on the financial condition of the funds and on estimated future operations. The report provides financial estimates for 75 years into the future. It projects how the trust funds will function under three different sets of economic and demographic assumptions ranging from pessimistic to optimistic.

HOW FINANCING WORKS

Social Security has similarities to both company pensions and insurance policies but both the financing and benefit provisions are different in important respects.

As with company pensions and private insurance companies, Social Security funds that are not used to pay benefits are not merely kept in a vault; they are invested and earnings on investments are used to help pay benefits and administrative costs. The law requires Social Security funds to be invested in U.S. government obligations bearing rates of interest similar to the long-term Treasury bonds sold to the general public. The securities earn billions of dollars in interest each year and this income currently represents nearly 10 percent of total income to the program.

Private insurance companies are considered sufficiently financed if they have reserves to cover outstanding obligations as they accrue. Social Security is considered sufficiently financed when its scheduled tax and other income will meet anticipated benefit and administrative expenses over the next 75 years. A social insurance program can rely safely on future earnings for income to pay benefits as they fall due, whereas private pensions and insurance plans (which could fail or go out of business) must maintain assets equal to all benefit amounts earned to date.

FACTSHEET

HOW SOCIAL SECURITY IS FINANCED TO PAY BENEFITS NOW AND IN THE FUTURE

A PIPELINE SPANNING GENERATIONS

Many think of Social Security financing in terms of a pipeline, with today's workers paying taxes at one end and yesterday's workers drawing benefits at the other. In other words, taxes paid by today's workers are used to pay benefits to today's beneficiaries. Remember, today's workers will one day be at the receiving end of the pipeline.

In the middle of the pipeline are the Social Security trust funds. These funds receive and disburse the taxes you pay. This method of financing is intended to maintain a balance between income and outgo of the program and to maintain a reserve to meet shortfalls in tax income. However, based on the Social Security amendments of 1977 and 1983, the program has been operating under a "partial reserve" method of funding. Reserve funds are now being built up to pay benefits in the future to help a smaller workforce support a larger retired population. The baby boomers, the large number of people born between 1946 and 1964, will be retiring starting around 2008. Today, there are three workers for every beneficiary; by the year 2030, there will be two workers for every beneficiary.

Based on current economic assumption, during the second decade of the next century benefit payments will exceed tax revenues and Social Security will have to redeem its trust fund reserves to meet its obligations. This means selling the securities it holds back to the government. To pay for them, the government would need to raise general taxes or sell new long-term securities in the private market. To meet the cost of the baby boom's retirement, Social Security taxes will need to be increased and/or program costs will need to be reduced.

CONCLUSION

The future of the Social Security system rests ultimately on the commitment of the American people to future generations. A number of factors indicate that the commitment will remain strong. These include the growing financial health of the system through the buildup of reserves generated by the bipartisan measures of 1983, the strong public support generated by the fact that the program touches the lives of so many people, and the strong political base represented by an aging population. The annual long-range review of the Board of Trustees and the continued scrutiny of the Congress provide an ongoing alarm system. It assures that there will always be sufficient warning to make adjustments in the system to meet the needs of future generations.

FACTSHEET

CURRENT FINANCING ISSUES

SOCIAL SECURITY TRUST FUNDS AND THE TOTAL FEDERAL BUDGET

The operations of the trust funds are excluded from the federal budget operations and thus, officially, are not counted against the overall federal deficit. In practice, however, trust fund reserves are invested in federal Treasury securities, thereby ***reducing*** the amount that the government must borrow from the public. Indirectly, therefore, Social Security operations help to balance the budget. This has become a controversial issue. Many feel that it is inappropriate to finance a significant portion of general federal expenditures from the Social Security payroll tax, and that this practice presents a misleading appearance of Social Security's financial status. Others argue that the practice can increase national savings and lead to faster economic growth in the future, thereby improving our ability to pay for the cost of the baby boomer's retirement.

GOVERNMENT BORROWING AND SOCIAL SECURITY

Traditionally, advisory groups and congressional study groups have decided against investing Social Security reserves in other than government securities. They have decided in favor of the least risk to the trust funds and the economic system. However, in light of the need for additional funding to meet the retirement needs of the Baby Boomers, the 1994-96 Advisory Council presented options for strengthening the future financing of Social Security by investing in the stock market. The members disagree sharply on how this would be accomplished. They presented three options: (1) the government invests a portion of Social Security reserves in the stock market; (2) individual accounts held by the government from which individuals would participate in investing in the stock market; (3) a combination of government benefits and privately held accounts invested in the stock market. The historic proposal is expected to dominate the public dialogue on the future of Social Security for some time. Opponents note that there are alternatives to investing in the stock market that pose less risk to the American public. Moreover, they argue that the billions of government dollars invested in the stock market would have severe implications for the American economy.

GETTING YOUR MONEY'S WORTH

Some people suggest that Social Security has been too good a deal for current beneficiaries and that it is a bad investment for current taxpayers. While it is true that, for the most part, today's beneficiaries receive a highly favorable return on their Social Security tax investment, it does not necessarily follow that it will be a bad deal for younger workers.

Consider, for example, someone born in 1977 who will earn average wages from age 22 through the year before retirement at normal retirement age (age at which unreduced benefits are first payable). The employee is expected to pay about $58,935 in today's dollars to the Social Security retirement and survivors trust fund, from which retirement and survivors benefits are paid. Based on the assumed earnings record, the anticipated retirement benefit is $922 per month, expressed in today's dollars. If it is assumed that the employee's taxes earn interest comparable to that earned by the trust funds, it would take roughly 13 years for the value of retirement benefits to exceed the accumulated value of taxes once payments commence. If a spouse's benefit is also payable, total benefits received would be approximately $1,383 per month, which would reduce the recovery time of the employee's contributions to roughly 8 years.

FACTSHEET

CURRENT FINANCING ISSUES

	When considering both the employee's and employer's taxes, the figures would more than double for the worker with average wages. However, many feel it is inappropriate to count the employer's taxes when considering the value of the employee's investment in Social Security since the employer is contributing to the retirement system as a whole. And, young workers should remember the potential value of Social Security disability and survivors benefits when they try to figure if they'll get their money's worth out of the program. A young disabled worker or the young family of a deceased worker stands to receive many times more in Social Security payments than the worker paid in Social Security taxes.
THE EVENTUAL LIQUIDATION OF SOCIAL SECURITY RESERVES	Under present law, payment of benefits in the future will depend in part on reducing the Treasury securities held by the trust funds. Some people suggest that doing so will require the government to raise trillions of dollars through increased general taxation, further borrowing from the public or cutbacks in other program outlays. However, others believe that there is no cause for concern since the government will easily be able to sell new long-term government bonds to the general public to obtain the funds to pay off the bonds Social Security is holding. How easy such a conversion will be may depend in part on the extent to which national wealth and savings will have been increased as a result of the buildup of Social Security reserves in earlier years.
SOCIAL SECURITY ACCORDING TO NEED	Some people have suggested "means-testing" Social Security—paying benefits only to people who need them. However, this proposal runs counter to the fundamental purpose of the program, which is to prevent need by providing a floor of income to every worker and his/her family when earnings stop because of disability, retirement, or death. It is estimated that if there were no Social Security, there would be almost four aged persons for every one that is now classified as poor. Moreover, experience has shown that part of the appeal that Social Security has is its relationship to a person's work. Most people prefer benefits as an earned right, payable as a matter of law. Introducing a means test would tend to make it just "another welfare program" in the public's mind, observers believe.
CONCLUSION	The continuing public discussion over issues related to the future of Social Security is a sign that it will continue to remain a priority on the American agenda. However, very often we forget that the present debate is over future possibilities rather than present dangers. The dialogue is about assuring that the compact between generations represented by the Social Security system remains viable and strong. The questions generally address the best means to accomplish this end, not whether or not it will be accomplished.

QUIZ — FINANCING

Select the answer that best answers the question or completes the statement.

1. Social Security benefits are financed mostly by:
   A. Payroll taxes paid by employees, employers, and the self-employed
   B. The Internal Revenue Service
   C. The income tax
   D. All of the above

2. "FICA" stands for:
   A. Fair Insurance Certification Act
   B. Federal Insurance Contributions Act
   C. Federal Intervention and Coercion Authority
   D. Federal Integrity Company of America

3. The trust funds financed by the Social Security tax are:
   A. Highway, Unemployment Insurance, Civilian Reserves
   B. Old Age and Survivors Insurance, Disability Insurance, Medicare Hospital Insurance
   C. Supplementary Medical Insurance, Workers' Compensation, Unemployment Insurance
   D. Civilian Conservation Corps, National Guard, Agricultural subsidies

4. The 1983 Social Security Amendments:
   A. Strengthened the financing of the Social Security system
   B. Added many new benefits
   C. Changed the amount of work needed to earn credits
   D. Created universal health insurance

5. The purpose of allowing Social Security reserves to build up is to:
   A. Make it possible to pay current benefits to more people.
   B. Have money on hand to use for other purposes besides paying benefits.
   C. Permit Social Security to be able to pay benefits to people retiring in the future when there will be fewer workers and more beneficiaries.
   D. All of the above.

6. Medicare's Supplementary Medical Insurance is funded by:
   A. Premiums paid by individuals enrolled in the program plus contributions from Federal general revenues.
   B. Contributions from those who can afford to pay.
   C. A flat tax on income up to a certain amount.
   D. All of the above.

---

7. Pay-as-you-go is a term used to describe the method by which Social Security traditionally operated to pay benefits, in which:
   A. General revenues are used to pay Social Security benefits.
   B. Taxes on current workers are used to pay benefits to current beneficiaries with a small reserve to pay benefits any month tax collections fall short.
   C. Taxes on the benefits of rich retired people are used to pay benefits to poor people.
   D. Monthly premiums paid by all workers are used to pay benefits.

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8. The maximum amount of earnings subject to the Social Security tax is called:
   A. The flat tax
   B. The earnings and benefit base
   C. The earnings limit
   D. The tax ceiling

---

9. Social Security has been described as:
   A. A compact between generations
   B. A social contract between the government and the people
   C. A pipeline from today's workers to yesterday's workers
   D. All of the above

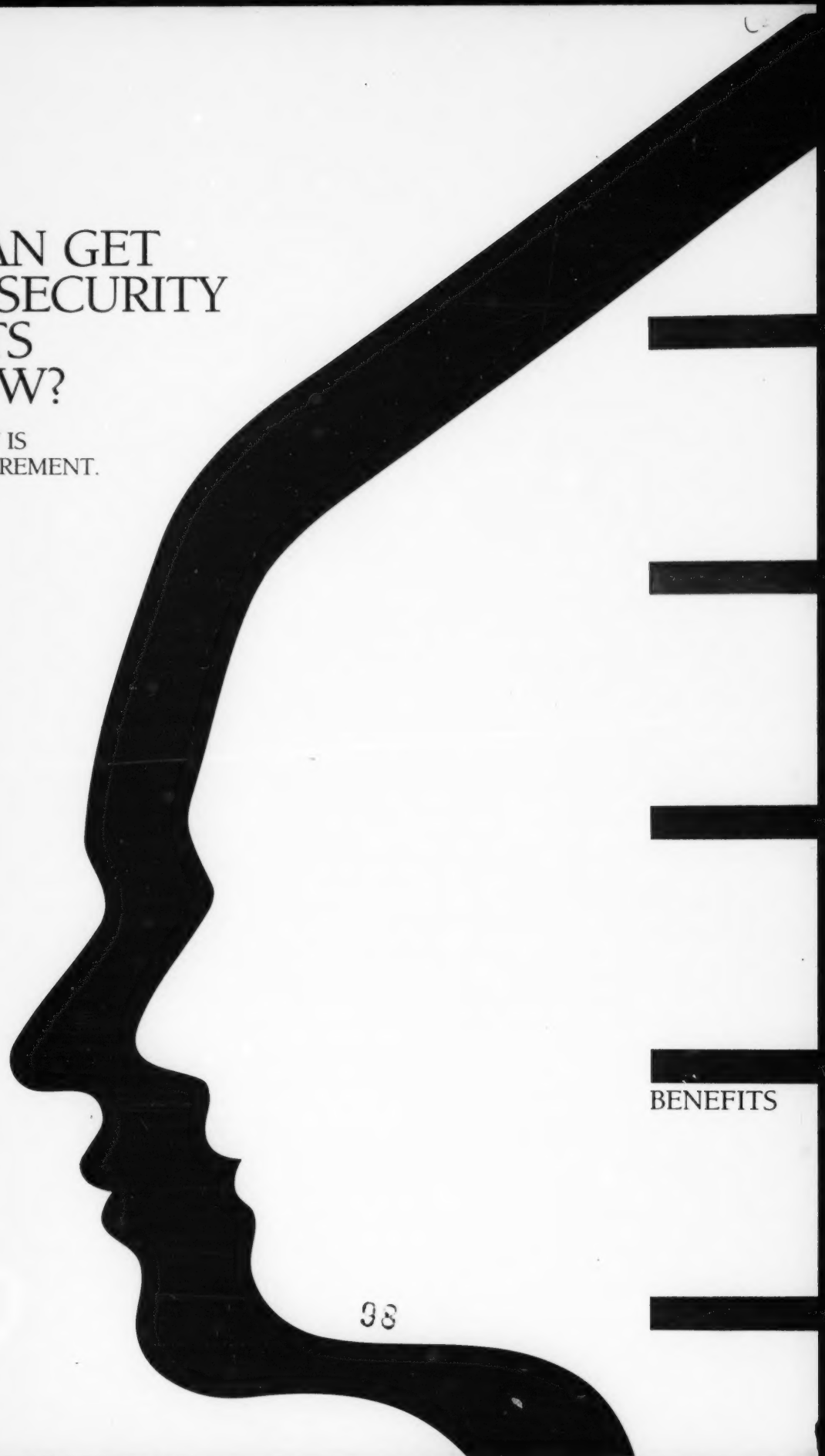
---

10. Under the law, Social Security trust funds can only be used to:
   A. Pay benefits, administrative expenses, and invest in government bonds
   B. Pay benefits
   C. Pay benefits and invest in the stock market
   D. Pay benefits and invest in housing

4

WHO CAN GET SOCIAL SECURITY BENEFITS AND HOW?

SOCIAL SECURITY IS MORE THAN RETIREMENT.



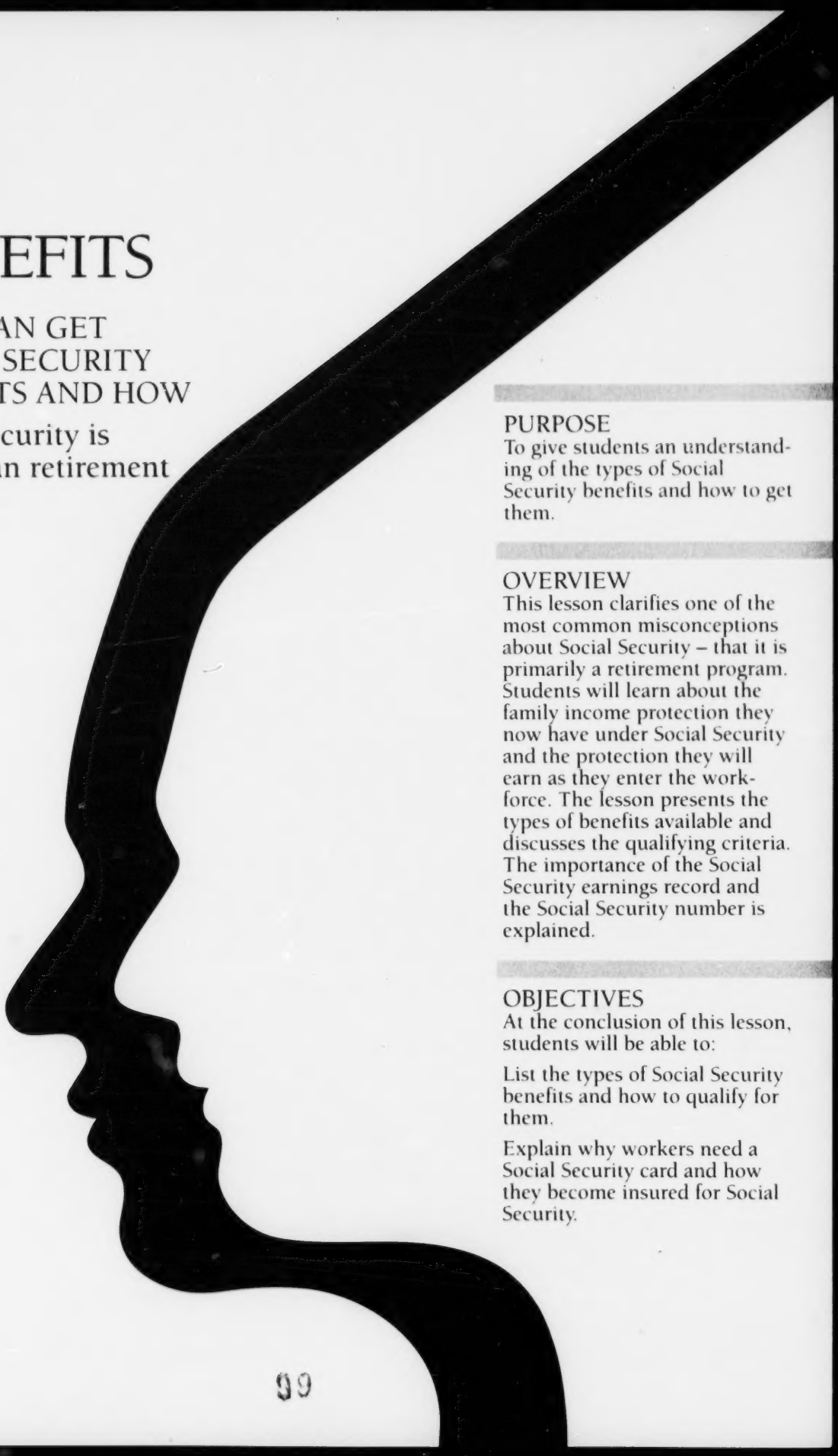
BENEFITS

4

BENEFITS

WHO CAN GET SOCIAL SECURITY BENEFITS AND HOW

Social Security is more than retirement



PURPOSE

To give students an understanding of the types of Social Security benefits and how to get them.

OVERVIEW

This lesson clarifies one of the most common misconceptions about Social Security – that it is primarily a retirement program. Students will learn about the family income protection they now have under Social Security and the protection they will earn as they enter the workforce. The lesson presents the types of benefits available and discusses the qualifying criteria. The importance of the Social Security earnings record and the Social Security number is explained.

OBJECTIVES

At the conclusion of this lesson, students will be able to:

List the types of Social Security benefits and how to qualify for them.

Explain why workers need a Social Security card and how they become insured for Social Security.

MATERIALS

VIDEOTAPE (If it has not already been shown.)

HANDOUTS
(1-11)

FACTSHEET 1
Types of Social Security Benefits and How to Qualify For Them

FACTSHEET 2
How Workers Become Insured for Social Security Benefits

QUIZ

KEY TERMS

BENEFIT
Monthly cash payment to insured workers and their families under the Social Security program.

EARNINGS RECORD
The individual's credited earnings under Social Security, recorded in yearly amounts.

FICA
Federal Insurance Contributions Act; another way of referring to Social Security taxes.

INSURED STATUS
Having enough earnings credits to qualify for Social Security benefits.

SOCIAL SECURITY NUMBER
A nine digit number used to identify workers, their earnings record and their taxes.

SOCIAL SECURITY TAXES
A percentage of earnings paid by employees, employers, and the self-employed to provide payments when earnings are reduced due to retirement, disability, or death.

SUPPLEMENTAL SECURITY INCOME (SSI)
A federal assistance program administered by Social Security which provides cash payments to needy people who are 65 or older, or blind, or disabled.

SPOUSE
Wife or husband.

INDEXED
When referring to the Social Security benefit formula, this means benefits are figured from the earnings record as adjusted by increases in general wages over the applicant's worklife.

COST-OF-LIVING
What we pay for goods and services on the average. Various formulas are used to arrive at the "cost-of-living" that takes into account what people pay for food, housing, clothing, and other items.

RETIREMENT BENEFITS
Monthly payments to workers age 62 and older who worked under Social Security long enough to become insured.

DISABILITY BENEFITS
Monthly payments to workers of any age who worked under Social Security long enough and recently enough to be insured. The applicant must suffer from a physical or mental condition that is expected to prevent him/her from working a year or more or to result in death.

SURVIVORS BENEFITS
Monthly payments to eligible members of the family of a deceased worker who worked long enough under Social Security to be insured.

INTERNAL REVENUE SERVICE
The federal agency responsible for the collection and disbursement of federal taxes.

FIXED INCOME
Refers to the condition in which a person's income does not change relative to changes in the price of the goods he/she purchases.

HOSPITAL INSURANCE
Refers to Part A part of Medicare which helps pay for hospital expenses for Medicare enrollees.

SUPPLEMENTARY MEDICAL INSURANCE
Refers to Part B of Medicare which helps pay for doctor bills and other medical expenses for Medicare enrollees.

OPENING THE LESSON

State the objectives of the lesson.
Review the key terms.

If the students have been given Factsheets #1 and #2 to read before the class, you should lead the following discussion as a quick review of the material. Permit them to use the factsheets for reference in responding to questions. The handouts contain the highlights of each numbered point in the lesson plan. Alternatively, you may prefer to list the answers on the chalkboard as they are given.

FACTSHEET 1

DEVELOPING THE LESSON

REFER TO VIDEO

1. Ask students to name the types of benefits Social Security pays. Refer to the video and the characters who were receiving disability benefits and survivors benefits. Note that Grandpa was looking forward to retirement.

HANDOUT 1

TYPES OF SOCIAL SECURITY BENEFITS

Retirement
Survivors
Disability
Medicare

2. Ask students if they know anybody receiving Social Security benefits. What type of benefits?

Do they know any young people receiving Social Security benefits?

HANDOUT 2

What type of benefits can a young person qualify for?

These benefits are payable on the earnings of a retired, deceased or disabled worker:

Unmarried children under 18; under 19 if still in high school

Unmarried children disabled before age 22 who continue to be disabled

REFER TO VIDEO

Discuss the purpose of Social Security benefits for children. Are such benefits necessary? Do children really suffer a loss of income when parents retire, die, or become disabled? Do students feel the benefits make a difference? How? Recall the character in the film, Sharon, and her description of how the benefits affected her life.

3. Ask students if they realize that most of them could probably qualify for survivors benefits if a parent dies. Discuss who else may get survivors benefits. These benefits are payable on the deceased worker's earnings record: HANDOUT 3

CHILD (as discussed above)

WIDOW OR WIDOWER AT AGE 60, OR DISABLED AT AGE 50

DEPENDENT PARENT (of worker) 62 OR OLDER

4. Discuss who can get retirement benefits. Ask students if they know how old they must be to get retirement benefits. Discuss this and other qualifying factors, referring to Factsheet # l. These benefits are payable on the retired worker's earning record: HANDOUT 4

WORKER

- ☐ Reduced benefits at 62
- ☐ Full benefits at 65 (67 by 2027.) This change was made by the 1983 amendments to account for the increasing life span of people and the expected added expense to the Social Security program in benefits payable.
- ☐ Increased benefits for retirement after 65 (67 by 2027)

WIFE OR HUSBAND

- ☐ Reduced benefits at 62

CHILD (as discussed above)

5. Based on Factsheet #1, ask students to identify who can get disability benefits. Note that disability benefits are paid to people who suffer a physical or mental condition which is expected to keep them from working at least a year or to result in death. The work does not have to be the same kind as done before. It can be any kind of work found in the national economy. This definition of disability is somewhat more strict than the definition used by some other programs that pay for partial disability, e.g. veterans benefits. Discuss why this should be so. (Program designed to pay for long-term, total disability. Benefits continue so long as a person is disabled. Total, long-term disability is the most expensive form of disability and a risk that the worker can least afford to protect against through other means.)

These benefits are payable on the earnings record of the disabled worker (except disabled widow or widower's benefits, which are paid on the record of the deceased worker.) Note that wife/husband and child benefits are essentially the same as for retired worker:

HANDOUT 5

DISABLED WORKER

WIFE OR HUSBAND
(same as under retired worker)

CHILD (same as under retired or deceased worker)

DISABLED WIDOW OR WIDOWER AT AGE 50

6.

Repeat the above exercise with Medicare.
Medicare benefits are:

For people 65 or over

For people receiving disability benefits for at least 24 months

HANDOUT 6

For people with permanent kidney failure

Has two parts:
PART A—Hospital Insurance: covers most inpatient hospital expenses.
PART B—Medical Insurance: covers doctor bills and other outpatient medical expenses.

7.

Note that we are going to discuss how to become insured for Social Security benefits.

Ask how many students have a Social Security card. Discuss what the students feel the card is to be used for. Ask if any students are working or have worked. Note that the Social Security number card is the key to protection and benefits under the program.

FACTSHEET 2

The Social Security number is used by your employer to pay Social Security taxes and to post wage amounts to earnings record.

Self-employed persons use Schedule SE of the Federal income tax return to report net income from self-employment. Net earnings must total at least $400 a year to be considered net income from self-employment.

Employee's yearly wages are reported on form W-2. This form shows your yearly Social Security wages, total taxable wages for income tax purposes, and the amount of Social Security and income taxes withheld. The employer sends a copy to Social Security to correctly credit each year's wages on your earnings record.

8. Benefits are based on earnings credited to your lifetime earnings record maintained by Social Security. HANDOUT 7

Earnings reported to your record by employer.

You should check your earnings at least once every three years.

Ask the Social Security office to send you a Form 7004 with which you may request a statement of your earnings.

When you send in the Form 7004, Social Security will send you a "Personal Earnings and Benefit Estimate Statement" which shows not only earnings but an estimate of benefits based on those earnings. (See Lesson V for information on how to use this statement in financial planning.)

9. No benefit can be paid on an earnings record unless the worker is "insured." Being insured means that he or she has credit for a certain amount of work under Social Security.

A credit of work is based on a specific amount of earnings that increases each year with increases in wage levels. A worker may earn a maximum of four credits a year.

The amount of work credits needed for benefits to be paid on your earnings record depends on the type of benefits and the age at which you apply. HANDOUT 8

RETIREMENT
No more than 10 years (40 credits)

SURVIVORS
At least one and one-half years (six credits), no more than 10 years (40 credits)

DISABILITY
Ranges from one and one-half years (six credits) out of the last three years for workers under 24, to five years (20 credits) out of the last 10 years for workers 31 and older. Workers over 43 also need the same number of work credits they would need for retirement benefits (no more than 40 credits).

10. For people who have not worked long enough under Social Security to qualify for benefits, or who have very low benefits, Supplemental Security Income (SSI) payments may be available. HANDOUT 9

SSI is a federal assistance program administered by Social Security.

SSI payments are made to needy people who are age 65 and older, or blind, or disabled.

Provides nationwide, uniform floor of income for the aged, disabled, blind.

Most states supplement payment based on local standards of need.

11. Ask students to tell you what they know about how the amount of their benefits is figured, based on Factsheet #2.

Based on average annual earnings over your working life. HANDOUT 10

The higher the earnings, the higher the benefit, up to a family maximum.

Weighted in favor of low earners, families.

Benefits are reduced for each month before age 65 a person retires, a maximum of 20 percent for a person retiring on his/her 62nd birthday. Under the 1983 amendments, the reduction for early retirement will be as high as 30 percent for people retiring after 2021.

Delayed retirement credits increase benefits for people who retire after the full retirement age, currently 65. Delayed retirement credits will gradually increase from four and one-half percent in 1995 to eight percent per year for people who reach age 66 in 2009.

Ask the students how they feel about reducing benefits for early retirement. Delayed retirement credits? Why are these percentages increasing? (To encourage people to work longer, delay drawing benefits, and thereby decrease program expenses.) Do students feel that "weighting" the benefit formula is fair? How would they change it and still meet the goal of providing a continuing income to a worker and his/her family at retirement, disability, or death? Do they feel the benefits are too low? Would they be willing to pay higher taxes for higher benefits? HANDOUT 11

Benefits are designed to maintain their value in two ways:

Benefits are computed on earnings indexed to reflect increases in average wages over your working life up to age 60.

Benefits increase annually with increases in the cost of living at and after age 62.

Discuss: What would be the result if wages were not indexed? What would be the result if benefits did not increase with the cost of living? Answers should point up the problem of inflation on fixed incomes, the difference in the value of today's dollars versus yesterday's and tomorrow's dollars.

CONCLUDING THE LESSON

12. Give the quiz and discuss. QUIZ

ALTERNATIVE EXERCISE

Have the students count off by four and identify each group of four people as a "family" composed of mother, father, and two children. Deposit in a box, bag, or similar container slips of paper containing the following scenarios under which a family would apply for Social Security benefits. Each group must determine which members of the group could qualify for benefits.

Allow 10 minutes for the group meetings. Have each of the members of the group assume one of the roles described in the scenario (worker, spouse, child) and report to the class why he or she qualifies or does not qualify for a Social Security benefit.

EXAMPLE

Worker retires at 64; spouse age 60; children ages 35 and 37;

Benefits payable to retired worker who is over 62, the minimum retirement age; spouse is under 62 with no children under 16 in his/her care, and does not qualify; children do not qualify since they are over 18 and are not disabled.

1. Worker retires at 65; spouse also age 65; children age 24 and 27;

Benefits payable to retired worker, spouse over age 62, but not to children over 18 and not disabled.

2. Worker retires at 67; spouse is 65. Children ages 39, 44;

Benefits payable to worker and spouse both over 62; children do not qualify—both are over 18 and not disabled.

3. Worker dies at age 45, leaving spouse, age 35, children ages 10, 12;

Benefits payable to children under 18. Spouse gets benefits as surviving spouse with child under 16 in his/her care.

4. Worker dies at 65; spouse 60; children ages 28 and 35; 35-year-old disabled in an auto accident two years ago;

Widow/widower may qualify for benefit at age 60; first child cannot because he/she is over 18 and not disabled. Disabled child cannot qualify on the deceased parent's record because he/she was not disabled before age 22.

5. Worker dies at 64; spouse age 55 and disabled; children ages 17, 30;

Spouse may get disabled widow's benefit since she is disabled after age 50; child, 17, may get benefit as minor under 18; second child over 18 and not disabled does not qualify.

6. Worker dies at 21, spouse is 18; children ages 2, 3;

Spouse qualifies with children under 16 in his/her care; children under 18 qualify.

7. Worker disabled at age 24: spouse is 22; children 3, 5;

Worker qualifies; spouse qualifies with children under 16 in his/her care. Children qualify as under 18.

8. Worker disabled at age 64; spouse 62; child 21, adopted child 14;

Worker qualifies; spouse qualifies at age 62 or with child under 16 in his/her care; adopted child may qualify; child over 18 and not disabled does not qualify.

9. Worker dies at age 55; spouse 38; child 17; dependent mother of worker living with them, age 75;

Child under 18 may receive benefit; spouse does not qualify since she is not 60 and not caring for child under 16; dependent mother may qualify since she is age 75.

10. Worker disabled at 35; spouse 29; both dependent parents living with worker;

Worker qualifies for benefit; spouse does not since he/she is not age 62 and has no children under 16 in care; no dependent parents' benefits payable on disabled worker's earnings record (dependent parents can get survivors benefits if worker dies).

QUIZ/ANSWER SHEET — BENEFITS

1.	D	6.	B
2.	A	7.	C
3.	C	8.	D
4.	D	9.	A
5.	A	10.	D

KEY TERMS

BENEFIT
Monthly cash payment to insured workers and their families under the Social Security program.

EARNINGS RECORD
The individual's credited earnings under Social Security, recorded in yearly amounts.

FICA
Federal Insurance Contributions Act; another way of referring to Social Security taxes.

INSURED STATUS
Having enough earnings credits to qualify for Social Security benefits.

SOCIAL SECURITY NUMBER
A nine digit number used to identify workers, their earnings record and their taxes.

SOCIAL SECURITY TAXES
A percentage of earnings paid by employees, employers, and the self-employed to provide payments when earnings are reduced due to retirement, disability, or death.

SUPPLEMENTAL SECURITY INCOME (SSI)
A federal assistance program administered by Social Security which provides cash payments to needy people who are 65 or older, or blind, or disabled.

SPOUSE
Wife or husband.

INDEXED
When referring to the Social Security benefit formula, this means benefits are figured based on increases in general wages over the applicants worklife.

COST-OF-LIVING
What we pay for goods and services on the average. Various formulas are used to arrive at the "cost-of-living"- that takes into account what people pay for food, housing, clothing, and other items.

RETIREMENT BENEFITS
Monthly payments to workers age 62 and older who worked under Social Security long enough to become insured.

DISABILITY BENEFITS
Monthly payments to workers who worked under Social Security long enough and recently enough to be insured. The applicant must suffer from a physical or mental condition that is expected to prevent him/her from working a year or more or to result in death.

SURVIVORS BENEFITS
Monthly payments to eligible members of the family of a deceased worker who worked long enough under Social Security to be insured.

INTERNAL REVENUE SERVICE
The federal agency responsible for the collection and disbursement of federal taxes.

FIXED INCOME
Refers to the condition in which a person's income does not change relative to changes in the price of the goods he/she purchases.

HOSPITAL INSURANCE
Refers to Part A part of Medicare which helps pay for hospital expenses for Medicare enrollees.

SUPPLEMENTARY MEDICAL INSURANCE
Refers to Part B of Medicare which helps pay for doctor bills and other medical expenses for Medicare enrollees.

TYPES OF SOCIAL SECURITY BENEFITS

Retirement

Survivors

Disability

Medicare

CHILD'S BENEFITS

These benefits are payable on the earnings of a retired, deceased, or disabled worker:

- ☐ Unmarried children under 18: under 19 if still in high school
- ☐ Unmarried children disabled before age 22 who continue to be disabled

WHO CAN GET SURVIVORS BENEFITS

These benefits are payable on the deceased worker's earnings record.

CHILD
Unmarried child under 18, or under 19 if still in high school

Unmarried child disabled before age 22 and continues to be disabled

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WIDOW OR WIDOWER, at age 60 or if disabled at age 50

DEPENDENT PARENT (of worker) 62 or older

WHO CAN GET RETIREMENT BENEFITS

These benefits are payable on the retired worker's earnings record:

WORKER
Reduced benefits at 62

Full benefits at 65 (67 by 2027)

Increased benefits for retirement after 65 (67 by 2027)

WIFE OR HUSBAND at age 62

CHILD

WHO CAN GET DISABILITY BENEFITS

These benefits are payable on the earnings record of the disabled worker (except disabled widow and widower benefits, which are paid on the record of the deceased worker). Note that wife/husband and child benefits based on the disabled worker's earnings are essentially the same as those payable on the retired worker's earnings.

DISABLED WORKER

WIFE OR HUSBAND
Same as those payable on retired worker's earnings

CHILD
Same as those payable on retired or deceased worker's earnings

WIDOW OR WIDOWER at age 50

MEDICARE

For people 65 or over

For people receiving disability benefits for at least 24 months

For people with permanent kidney failure

Has two parts:

PART A-Hospital Insurance covers most inpatient hospital expenses.

PART B - Medical Insurance covers doctor bills and other outpatient medical expenses.

YOUR EARNINGS RECORD

Benefits are based on earnings credited to your lifetime earnings record maintained by Social Security.

- ☐ Earnings reported to your record by employer.
- ☐ You receive statement of earnings paid on a W-2 form at end of year.
- ☐ Self-employed report on income tax return.

You should check your earnings at least once every three years.

- ☐ Ask the Social Security office to send you a Form 7004 with which you may request a statement of your earnings.
- ☐ When you send in the Form 7004, Social Security will send you a *"Personal Earnings and Benefit Estimate Statement"* which shows not only earnings but an estimate of benefits based on those earnings.

HOW MUCH WORK YOU NEED FOR BENEFITS

The amount of work needed for benefits to be paid on your earnings record depends on the type of benefit and the age at which you apply.

RETIREMENT

No more than 10 years

SURVIVORS

At least one and one-half years

DISABILITY

Ranges from one and one-half years out of the last three years for workers under 24, to five out of the last 10 years for workers 31 and older.

SUPPLEMENTAL SECURITY INCOME (SSI)

SSI is a federal assistance program administered by Social Security.

- ☐ SSI payments are made to needy people who are age 65 and older, or blind, or disabled.
- ☐ Provides nationwide, uniform floor of income for the aged, disabled, blind.
- ☐ Most states supplement payment based on local standards of need.

People who do not have enough work credits to qualify for Social Security or whose benefits and other income are low may qualify for SSI if they fall within the SSI income and resource limits.

HOW BENEFIT AMOUNTS ARE FIGURED

Based on average annual earnings over your working life

- ☐ The higher the earnings, the higher the benefit, up to a maximum
- ☐ Weighted in favor of low earners, families

Designed to maintain purchasing power

- ☐ Wages indexed to reflect increases in average wages
- ☐ Benefits increase annually with cost of living

EXAMPLES OF BENEFITS

Approximate Monthly Benefits If You Retire At Full Retirement Age And Had Steady Lifetime Earnings

Your Age In 1998	Your Family	Your Earnings in 1997 $20,000	$30,000	$40,000	$50,000	$65,400 Or More[1]
45	You	$ 809	$1,076	$1,265	$1,390	$1,592
	You and your spouse[2]	1,213	1,614	1,897	2,085	2,388
55	You	809	1,076	1,265	1,377	1,525
	You and your spouse[2]	1,213	1,614	1,897	2,065	2,287
65	You	784	1,043	1,197	1,269	1,342
	You and your spouse[2]	1,176	1,564	1,795	1,903	2,013

1 Use this column if you earn more than the maximum Social Security earnings base.
2 Your spouse is assumed to be the same age as you. Your spouse may qualify for a higher retirement benefit based on his or her own work record.

Approximate Monthly Benefits If You Become Disabled In 1998 And Had Steady Earnings

Your Age	Your Family	Your Earnings in 1997 $20,000	$30,000	$40,000	$50,000	$65,400 Or More[1]
25	You	$ 809	$1,076	$1,265	$1,390	$1,566
	You, your spouse and child[2]	1,214	1,614	1,897	2,085	2,349
35	You	809	1,076	1,265	1,390	1,559
	You, your spouse and child[2]	1,214	1,614	1,897	2,085	2,338
45	You	809	1,076	1,265	1,390	1,528
	You, your spouse and child[2]	1,214	1,614	1,897	2,085	2,293
55	You	809	1,076	1,257	1,348	1,442
	You, your spouse and child[2]	1,214	1,614	1,886	2,023	2,164
64	You	783	1,041	1,195	1,266	1,340
	You, your spouse and child[2]	1,174	1,562	1,793	1,900	2,010

1 Use this column if you earn more than the maximum Social Security earnings base.
2 Equals the maximum family benefit.

Note: The accuracy of these estimates depends on the pattern of your actual past earnings. Your actual benefit **probably will be higher because these estimates are shown in today's dollars.**

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EXAMPLES OF BENEFITS

Approximate Monthly Survivors Benefits If The Worker Dies In 1998 And Had Steady Earnings

Worker's Age	Your Family	Deceased Worker's Earnings In 1997 $20,000	$30,000	$40,000	$50,000	$65,400 Or More[1]
35	Spouse and 1 child[2]	$1,214	$1,614	$1,897	$2,085	$2,348
	Spouse and 2 children[3]	1,459	1,914	2,215	2,434	2,741
	1 child only	607	807	948	1,042	1,174
	Spouse at age 60	578	769	904	994	1,119
45	Spouse and 1 child[2]	1,214	1,614	1,897	2,085	2,302
	Spouse and 2 children[3]	1,459	1,914	2,215	2,434	2,687
	1 child only	607	807	948	1,042	1,151
	Spouse at age 60	578	769	904	994	1,097
55	Spouse and 1 child[2]	1,214	1,614	1,886	2,023	2,164
	Spouse and 2 children[3]	1,459	1,914	2,201	2,361	2,526
	1 child only	607	807	943	1,011	1,082
	Spouse at age 60	578	769	899	964	1,031

[1] Use this column if the worker earned more than the maximum Social Security earnings base.

[2] Amounts shown also equal the benefits paid to two children, if no parent survives or surviving parent has substantial earnings.

[3] Equals the maximum family benefit.

FACTSHEET

TYPES OF SOCIAL SECURITY BENEFITS AND WHO CAN GET THEM

Most people think of Social Security as a retirement program. However, Social Security pays disability and survivors benefits as well. Medicare hospital insurance is also financed through Social Security taxes.

CHILD'S BENEFITS

In fact, children under 18 may qualify for benefits based on their mother's or father's work if either parent is deceased, or retired, or disabled. The child may be a natural child, stepchild, adopted child, or, under certain conditions, a grandchild. To qualify, a child must be:

- ☐ Under age 18 (or under 19, if still in high school), or
- ☐ Disabled before age 22 and unable to work because of the disability, and
- ☐ Unmarried

Nearly 40 percent of current Social Security beneficiaries are non-retirees.

SURVIVORS BENEFITS

Survivors benefits are paid to the eligible members of a worker's family. In addition to the eligible children identified above, other family members may include:

- ☐ Widow or widower age 60 or older,
- ☐ A widow or widower disabled at age 50
- ☐ A divorced spouse may qualify on the same basis as a widow or widower if the marriage lasted 10 years or more.
- ☐ A dependent parent 62 or older.

RETIREMENT BENEFITS

Full retirement benefits are currently paid at age 65. Full retirement benefits for today's high school students will be paid at age 67. The increase will start in 2003, reaching 67 by 2027.

Reduced benefits are paid at age 62. Benefits are reduced for each month before age 65 a person retires, a maximum of 20 percent for a person retiring on his/her 62nd birthday. Under the 1983 amendments, the reduction for early retirement will be as high as 30 percent for people retiring after 2021.

Delayed retirement credits increase benefits for people who retire after the full retirement age, currently 65. Delayed retirement credits will gradually increase up to eight percent per year by 2009.

Others who can get benefits on the worker's record include:

- ☐ Children, as stated above.
- ☐ Spouse age 62, or at any age caring for an eligible child under 16 or disabled.

FACTSHEET

TYPE OF SOCIAL SECURITY BENEFITS
AND WHO CAN GET THEM

DISABILITY BENEFITS	Disability benefits are paid to workers who have a physical or mental impairment which is expected to keep them from working for a year or more or to result in death. The work does not need to be the same as the work they did before becoming disabled. It can be any work found in the national economy. Unlike some disability programs, Social Security does not pay for partial disability. The program is designed to protect against the risk of total, long-term disability. Spouse and children may qualify for benefits on a disabled worker's earnings record in the same way as with retired workers.
MEDICARE	People over 65 and those who receive Social Security disability payments for 24 months, or who have permanent kidney failure, can get Medicare. Medicare has two parts: Part A (Hospital Insurance) covers most inpatient hospital expenses. Part B (Supplementary Medical Insurance) covers doctors' bills and other medical expenses. Everyone must pay a premium for Part B.
SUPPLEMENTAL SECURITY INCOME (SSI)	For people who have not worked long enough under Social Security to quality for benefits, or whose Social Security benefits are very low, Supplemental Security Income (SSI) payments may be available. SSI is composed of the former state public assistance programs for the aged, blind, and disabled, taken over by the federal government in 1972 and administered by the Social Security Administration. SSI makes monthly payments to people with little income and resources. No prior work is needed to qualify for monthly SSI payments. Applicants must be 65 and over, or blind, or disabled with limited income and resources. When a person applies for SSI, eligibility for Social Security benefits is also explored. If he or she qualifies for Social Security, SSI payments may still be available if total income is within SSI limits.

FACTSHEET

HOW WORKERS BECOME INSURED FOR SOCIAL SECURITY BENEFITS

YOUR SOCIAL SECURITY NUMBER

The Social Security number card is the key to protection and benefits under the program.

The Social Security number is used by your employer to pay Social Security taxes and for the Social Security Administration (SSA) to post reported earnings to your earnings record.

Many people may have the same name but each should have a different number. The number is also the Federal Taxpayer Identification Number.

A number must be shown for dependents listed on federal tax returns. Employers have to see the paper card issued by Social Security to verify legal work status.

Every applicant for a Social Security card must provide proof of age, citizenship or lawful alien status, and identity. Applications should be sent to the nearest Social Security office.

REPORTING EARNINGS

Employees' wages are reported on form W-2. This form shows your yearly Social Security wages, total taxable wages, and the amount of taxes withheld. The employer sends a copy to Social Security to correctly credit each year's wages on your earnings record.

Self-employed persons use Schedule SE of the federal income tax return to report net income from self-employment. Net earnings must total at least $400 to count for Social Security coverage.

You will want to be sure your Social Security earnings record is correct so that you and your family are correctly paid when you become eligible for benefits. You should check your earnings at least once every three years. Ask SSA to send you a Form 7004 with which you may request a statement of your earnings. When you send in the Form 7004, SSA will send you a *Personal Earnings and Benefit Estimate Statement* which shows not only earnings but an estimate of benefits based on those earnings.

BECOMING INSURED

No benefit can be paid on an earnings record unless the worker is "insured." This means that you must have credit for a certain amount of work under Social Security.

The amount of work credits you need to be insured for benefits depends on the year you reach 62, or your age when you retire, die, or become disabled. Under current law, you do not need more than 40 credits to be fully insured for any benefit.

FACTSHEET

HOW WORKERS BECOME INSURED FOR SOCIAL SECURITY BENEFITS	In general, credit for 10 years of work is needed to qualify for retirement benefits (40 credits). Persons who reach 62 before 1991 need less. For disability benefits a worker under 24 may qualify for benefits with credit for as little as one and one-half years of work (six credits) under Social Security. The amount of work credit needed for disability benefits increases with age, with at least five years of work needed in the last 10 years for workers disabled after age 31. Survivors benefits may be payable to children and the surviving parent if the worker has credit for one and one-half years of work (six credits) in the three years before death.
AMOUNT OF BENEFIT	The amount of the benefit is based on a worker's average annual earnings over his/her working life. In general, the higher the earnings, the higher the benefit. Benefits are weighted in favor of low earners and workers with families. Although higher earners get higher benefits, low earners and earners with families get a benefit that is higher in proportion to their earnings. It is also important to know that Social Security benefits are designed to keep up with inflation and the cost-of-living. The value of the benefits is maintained in two ways. First, past earnings are indexed or modified to reflect increases in wages over the years. This means that when the benefit amount is figured, the value of the earnings on which it is based has not been diminished. After a person starts receiving benefits, the benefit payments increase automatically with annual increases in the cost-of-living. The purchasing power of their benefits increases with increases in the prices of the goods and services for which he/she must pay.

QUIZ — BENEFITS

Select the answer that best responds to the questions or completes the statement.

1. Social Security pays the following cash benefits:
   A. Medicare, SSI, unemployment
   B. Infant care, public assistance
   C. Veterans, railroad retirement, civil service
   D. Retirement, survivors, disability

---

2. What is the most years of work credit you would need under Social Security to qualify for retirement benefits?
   A. 10 years
   B. 5 years
   C. 5 out of the last 10
   D. 20 years

---

3. At age 24, how many years of credit would you need under Social Security to qualify for disability benefits?
   A. 5 years
   B. 10 years
   C. 1½ years
   D. 5 out of 10 years

---

4. If either parent died today, what benefit would you be most likely to qualify for as a student under 18?
   A. Retirement benefits
   B. Disability benefits
   C. Medicare
   D. Survivors benefits

---

5. The earliest you can collect a retirement benefit is:
   A. Age 62
   B. Age 65
   C. Age 60
   D. Age 50

6. Widows and widowers may collect a survivors benefit at age:
   A. Age 62
   B. Age 60
   C. Age 50
   D. Age 55

---

7. Disabled widows and widowers may collect disability benefits at:
   A. Age 30
   B. Age 40
   C. Age 50
   D. Age 60

---

8. How many Social Security numbers are you permitted to have in your lifetime?
   A. As many as you need
   B. Two
   C. Three
   D. One number, but as many duplicate cards as you need

---

9. Social Security benefits increase annually with increases in the cost of living in order to:
   A. Help beneficiaries keep up with the cost of living by fighting inflation.
   B. Help pay benefits to poor people.
   C. Decrease the deficit.
   D. Increase the deficit.

---

10. The program that provides health insurance coverage for people who are 65 and over, or who have a prolonged disability or permanent kidney failure is called:
   A. Medicaid
   B. Assistance Care
   C. Helpcare
   D. Medicare

INSTRUCTIONS FOR ALTERNATIVE EXERCISE

You are part of a family applying for Social Security. Using the information provided on the slip of paper you picked, determine which members of your "family" could qualify for benefits and how.

Each of the members of the group should assume one of the roles described in the scenario (worker, spouse, child, dependent parent) and report to the class why he or she qualifies or does not qualify for a Social Security benefit.

EXAMPLE

Worker retires at 64; spouse age 60; children ages 35 and 37.

Benefits payable to retired worker who is over 62, the minimum retirement age; spouse is under 62 with no children under 16 in his/her care, and does not qualify; children do not qualify since they are over 18 and are not disabled.

1. Worker retires at 65; spouse also age 65; children age 24 and 27.
2. Worker retires at 67; spouse is 65; children ages 39, 44.
3. Worker dies at age 45, leaving spouse age 35; children ages 10,12.
4. Workers dies at 65; spouse 60; children ages 28 and 35-year-old disabled in an auto accident two years ago.
5. Worker dies at 64; spouse age 55 and disabled; children ages 17,30.
6. Worker dies at 21; spouse is 18; children ages 2,3.
7. Worker disabled at age 24; spouse is 22; children 3, 5.
8. Worker disabled at age 64; spouse 62; child 21, adopted child 14.
9. Worker dies at age 55; spouse 38; child 17; dependent mother of worker living with them, age 75.
10. Worker disabled at 35; spouse 29; both dependent parents living with worker.

5

USING SOCIAL SECURITY IN PLANNING FOR THE FUTURE.

SOCIAL SECURITY AS A FINANCIAL PLANNING TOOL.

BEST COPY AVAILABLE

5

FINANCIAL PLANNING

USING SOCIAL SECURITY IN PLANNING FOR THE FUTURE

Social Security as a financial planning tool

PURPOSE

To help students understand how Social Security fits in financial planning.

OVERVIEW

This is a good lesson on which to end a course on Social Security or to use in conjunction with Lesson IV on benefits. It tells students how they should use Social Security information to plan for the future. Students discuss what specific information they will need for planning purposes and how to get it.

OBJECTIVES

At the conclusion of this lesson, students will be able to:

Identify the essential information they need to know about Social Security in order to use it effectively in financial planning.

Explain how to get the information they need for planning purposes, including a benefit estimate.

MATERIALS

HANDOUTS (1–6)

FACTSHEET
Using Social Security in Planning for the Future

KEY TERMS

BUDGET
Allocating income to various categories such as savings and insurance to cover today's expenses, plan for future goals, and minimize risks.

DISABILITY
A risk. Social Security law defines it as a medically documented illness or injury that prevents substantial work for 12 calendar months or is expected to result in death.

DEATH
Social Security pays survivors monthly benefits.

EARNINGS RECORD
The record Social Security keeps of the wages and self–employment earnings on which Social Security tax was paid. It is used to determine insured status and benefit amounts.

GOALS
What we need or want in the future, such as a car, college education, or retirement benefits.

INSURED STATUS
A Social Security term meaning having worked in covered employment long enough to be eligible for retirement, survivors, or disability benefits. Needed before any benefits can be paid.

MEDICARE
Basic health insurance for workers age 65 or older, or receiving disability benefits for 24 months or having severe kidney disease.

PENSION
Payments from an employer or insurance company based on work for one employer.

REPLACEMENT RATES
The percentage of earnings the benefits replace. In general, benefits replace about 42 percent of the earnings at the average earnings level, and 26 percent for workers paying on maximum earnings subject to the Social Security tax.

RETIREMENT
Social Security benefits are payable as early as age 62 with a reduction. The retirement age for full benefits is gradually increasing from 65 to 67.

RISKS
Events that threaten our ability to work for income, our savings, etc. Such as becoming disabled, large medical expenses.

OPENING THE LESSON

State the objectives of the lesson. Review the key words. Lead the following discussion using the factsheet. Permit students to refer to the factsheet if necessary to respond to questions.

1. Ask students if they know what financial planning is, or what they think it is. Discuss, then define:

HANDOUT 1

Financial planning is a method people use to meet future financial goals and to minimize financial risks.

List some of our goals and risks on the board.

Ask what people usually do to meet goals? Minimize risks? Discuss.

DEVELOPING THE LESSON

2. Explain that Social Security is this nation's basic method of assuring a continuing income to you and your family if you:

HANDOUT 2

- ❑ Become disabled
- ❑ Retire
- ❑ Die

In financial planning, Social Security retirement, survivors, and disability benefits:

Minimize risk of financial disaster at disability or death.

Help meet the goal of financial security in retirement.

3. Ask: What do you need to know about Social Security to use it effectively in planning financial security? From reading the factsheet, students should be able to pose the following questions.

HANDOUT 3

How much in Social Security benefits can you expect at retirement, or disability, or for your family should you die before retirement?

How can you get an estimate of your benefits?

How will other income or pensions affect your Social Security benefits?

How old do you have to be to get benefits?

How much work under Social Security do you need for benefits?

When and how should you contact Social Security?

HANDOUT 4

Note that we have already discussed how old you have to be and how much work under Social Security you need to get benefits in Lesson IV. Let's review briefly.

FULL RETIREMENT BENEFITS are payable at age 65 (67 by 2027, the time the students will be thinking about retirement).

REDUCED RETIREMENT BENEFITS are payable at age 62; reduction increases from the present 20 percent to 30 percent by 2022.

INCREASED RETIREMENT BENEFITS for people who delay retirement past full retirement age. Increases gradually to 8 percent a year by 2009.

Under present law, you will not need more than 10 years of work (40 work credits) to qualify for retirement benefits.

DISABILITY BENEFITS are paid on your work record at any age. The amount of work needed ranges from one and one–half years (six credits) for workers under age 24 to at least five years (20 credits) out of the last 10 for workers over age 30.

SURVIVORS BENEFITS are paid on your work record at any age. The amount of work needed by the worker increases from one and one–half years (six credits) for workers under age 24 to no more than 10 years (40 credits) for workers over age 43.

4. Discuss first how much you can expect in benefits when you retire, die, or become disabled.

HANDOUT 5

The first thing you should know is that Social Security does not replace all of your earnings, only a part of them. The replacement rate depends on your level of earnings:

Low earnings	60 percent
Average earnings	42 percent
High earnings	26 percent

5. How would you go about finding out how much you've got coming from Social Security?

HANDOUT 6

To make it easier for workers, Social Security provides a *Personal Earnings and Benefit Estimate Statement* (PEBES) upon request.

Statement will show:

Total wages credited to your record annually

Number of work credits earned

Estimated monthly benefits

Estimate of Social Security taxes paid

6. Remind students that, since they will need other financial resources in addition to Social Security, to look at how their Social Security benefits may be affected.

FACTSHEET

In general, only earnings from work done after you start receiving benefits affect your benefits. Most other types of retirement income will not affect your benefits. These include payments from private insurance and pensions from private employers, and annuity payments; and income from investments, such as interest and capital gains. This rule is designed to encourage people to build up income for retirement and financial security using Social Security as a base.

Note other rules that could possibly affect your benefits, although not very many people are affected:

WORKER'S COMPENSATION and other public disability payments may reduce Social Security disability payments so that total income does not exceed 80 percent of monthly income prior to becoming disabled.

A pension based on work not covered by Social Security will reduce your Social Security retirement payment under the WINDFALL PROVISION.

A benefit received from another public pension system may affect your benefit as a spouse receiving a Social Security benefit on the earnings record of a worker under the rules of the GOVERNMENT PENSION OFFSET.

FEDERAL INCOME TAX may be due on up to 85 percent of your Social Security benefits if you have high income.

7. Remind the students that these are only some of the most important things people need to know about Social Security for financial planning. The more you know, the better. You should also know when and how to contact Social Security.

FACTSHEET

You should call Social Security:
To ask a general question.
To get an application for a Social Security number.
To get a "Request for Personal Earnings and Benefit Estimate Statement"
If you have more than one Social Security number.

YOU SHOULD CALL SOCIAL SECURITY *(continued)*:

If you notice an error in your earnings record.

If someone in your family:

- ❑ Dies
- ❑ Becomes disabled
- ❑ Reaches age 62 and wants to retire
- ❑ Develops permanent kidney failure
- ❑ Reaches age 65 and wants to discuss Medicare

CALL 1–800–772–1213.

CONCLUDING THE LESSON

8. Now, let's see how much you remember about what we've just discussed. (Give quiz and discuss.) QUIZ

ALTERNATIVE EXERCISE

Have students develop a retirement plan, or a financial plan, using the information they have learned. The plan should identify the level of income they expect in retirement, or if they should become disabled, or if they die, the source of the income, and how these sources will affect Social Security benefits. They should use the benefit example charts in Lesson 4 to estimate the amount of benefits they expect to receive. Note that experts suggest that people need about 75 percent of pre–retirement income to maintain their lifestyle in retirement. This is because they generally have little or no work–related expenses, and many of their other major expenses are behind them (mortgages, college expenses, child–rearing expenses). This exercise may be given as an individual assignment, small group project, or may be done as a chalkboard exercise with the entire class participating.

QUIZ/ANSWER SHEET — FINANCIAL PLANNING

1.	A	6.	A
2.	B	7.	B
3.	D	8.	D
4	C	9	B
5.	B	10	D

Social Security Administration

KEY TERMS

BUDGET
Allocating income to various categories such as savings and insurance to cover today's expenses, plan for future goals, and minimize risks.

DISABILITY
A risk. Social Security law defines it as a medially documented illness or injury which prevents substantial work for 12 calendar months or is expected to result in death.

DEATH
Social Security pays survivors monthly benefits.

EARNINGS RECORD
The record Social Security keeps of the wages and self-employment earnings on which Social Security tax was paid. It is used to determine insured status and benefit amounts.

GOALS
What we need or want in the future, such as a car, college education, or retirement benefits.

INSURED STATUS
A Social Security term meaning having worked in covered employment long enough to be eligible for retirement, survivors, or disability benefits. Needed before any benefits can be paid.

MEDICARE
Basic health insurance for workers 65 or older, or receiving disability benefits for 24 months or having severe kidney disease.

PENSION
Payments from an employer or insurance company based on work for one employer.

REPLACEMENT RATES
The percentage of earnings that benefits replace. In general benefits replace about 42 percent of the earnings at the average earnings level, and 26 percent for workers paying on maximum earnings subject to the Social Security tax.

RETIREMENT
Social Security benefits are payable as early as 62 with a reduction. The retirement age for full benefits is gradually increasing from 65 to 67.

RISKS
Events which threaten our ability to work for income, our savings, etc. Such as becoming disabled, large medical expenses.

WHAT IS FINANCIAL PLANNING?

A method people use to:

Meet financial goals

Minimize financial risks

SOCIAL SECURITY AND FINANCIAL PLANNING

In financial planning, Social Security retirement, survivors, and disability benefits:

Minimize risk of financial disaster at disability, death.

Help meet the goal of financial security in retirement.

WHAT YOU NEED TO KNOW ABOUT SOCIAL SECURITY FOR FINANCIAL PLANNING

How much in Social Security benefits you can expect at retirement, or disability, or for your survivors should you die.

How to get an estimate of your benefits.

How other income or pensions will affect your Social Security benefits.

How old you have to be to get benefits.

How much work under Social Security you need for benefits.

When and how to contact Social Security.

WHEN YOU CAN GET BENEFITS

FULL RETIREMENT benefits are payable at age 65 (67 by 2027)

REDUCED RETIREMENT BENEFITS are payable at age 62; reduction increases from the present 20 percent to 30 percent by 2022.

INCREASED RETIREMENT BENEFITS for people who delay retirement. Increases gradually to eight percent a year by 2009.

DISABILITY BENEFITS are paid on your work record at any age under 65. The amount of work needed ranges from one and one-half years for worker under 24 to at least five years out of the last 10 for worker over 30.

SURVIVORS BENEFITS are paid on your work record at any age. The amount of work needed increases from one and one-half years for workers under 24 to no more than 10 for workers over 43.

HOW MUCH YOU CAN EXPECT FROM SOCIAL SECURITY

Social Security benefits replace a part of your earnings, not all of them. How much depends on your average annual lifetime earnings.

Low earnings	60 percent
Average earnings	42 percent
High earnings	26 percent

FINDING OUT WHAT YOU'VE GOT COMING FROM SOCIAL SECURITY

Request a *Personal Earnings and Benefit Estimate Statement* from Social Security. Call and ask for Form SSA-7004.

Statement will show:

Total wages credited to your record annually.

Number of work credits earned.

Estimated monthly benefits.

Estimate of Social Security taxes paid.

FACTSHEET

USING SOCIAL SECURITY IN PLANNING FOR THE FUTURE

SOCIAL SECURITY AS A FINANCIAL PLANNING TOOL

Financial planning is a method people use to meet future financial *goals* and to minimize financial *risks*.

Social Security is this nation's basic method of assuring a continuing income to you and your family if you retire, become disabled, or die. Social Security thus helps to minimize the risk of financial disaster at disability or death. And with proper planning, it can help to meet the goal of financial security at retirement.

WHAT YOU NEED TO KNOW

To use Social Security effectively, you need to know certain facts about the program. These facts include:

- ☐ How much in Social Security benefits you can expect at retirement, or in case of death, or disability.
- ☐ How to get an estimate of your benefits.
- ☐ How other income or pensions will affect your Social Security benefits.
- ☐ How old you have to be to get benefits. (See Factsheet #1, Lesson IV)
- ☐ How much work under Social Security you need for benefits. (See Factsheet #1, Lesson IV)

HOW MUCH CAN YOU EXPECT IN BENEFITS?

First, how much can you expect in benefits when you retire, or in the event you die or become disabled? Since, as we stated, Social Security does not replace all of your earnings, you need to know how much of your earnings will be replaced.

This depends on how high your earnings are under Social Security. The more you earn, the higher your benefit, but the lower your replacement rate; the lower your earnings, the higher the percentage of your earnings Social Security replaces. Benefits are weighted to favor the low earner because he/she has less opportunity to save or invest. For example:

If your average lifetime wages are at the minimum wage level, Social Security will replace about 60 percent of your earnings.

If you are earning average wages over your working life, your Social Security benefits will replace about 42 percent of your monthly earnings.

If you are earning maximum wages, your Social Security benefits will replace about 26 percent of your monthly earnings.

HOW TO GET AN ESTIMATE

To make it easier for you, Social Security provides a *Personal Earnings and Benefit Estimate Statement* (PEBES) upon request. You should call Social Security and ask for a request form, Form 7004.

Once the request form is completed and mailed, a statement should arrive in about four to six weeks.

The statement will show: annual wage and self-employment earnings total, estimated Social Security taxes paid, number of work credits earned, estimated monthly benefits.

If there is any error or omission, contact Social Security by calling 1-800-772-1213. You should have your copy of W-2's and self-employment tax returns.

FACTSHEET

USING SOCIAL SECURITY IN PLANNING FOR THE FUTURE

WHAT DOESN'T AFFECT SOCIAL SECURITY BENEFITS

In general, only earnings from work done after you start receiving benefits affect your benefits. Most other types of retirement income will not affect your benefits. For example:

- ☐ Capital gains
- ☐ Insurance payments
- ☐ Annuity payments
- ☐ Pension from private employers
- ☐ Interest income

WHAT DOES AFFECT SOCIAL SECURITY BENEFITS

- ☐ Earnings over the annual earnings limits.
- ☐ Workers' compensation and other public disability payments may affect disability benefits.
- ☐ A pension based on work not covered by Social Security will cause your Social Security retirement payment to be reduced under the windfall provision.
- ☐ Your benefit as a spouse on the worker's earnings record may be reduced because of another government pension based on your own earnings, under the government pension offset.
- ☐ Federal income tax may be due on a portion of your Social Security benefits if you have substantial total income.

WHEN TO CONTACT SOCIAL SECURITY

It's also important to know when and how to contact Social Security. 1-800-772-1213.

- ☐ To ask general questions.
- ☐ To change your name when you get married.
- ☐ To get an application for a Social Security number and "Request for Earnings and Benefit Estimate Statement."
- ☐ If you notice an error on your earnings record.
- ☐ If someone in your family:
  - —dies
  - —becomes disabled
  - —reaches 62
  - —develops permanent kidney failure
  - —reaches 65 to discuss Medicare if he/she is not retiring

Note that all services Social Security provides are FREE, from issuing Social Security number cards to processing disability, survivor, and retirement claims. These services are funded already through Social Security taxes. No additional payment is needed. Some companies try to collect money for services that Social Security provides for free.

QUIZ — FINANCIAL PLANNING

Select the answer that best answers the question or completes the statement.

1. Social Security is important to family financial planning because:
   A. Benefits minimize the risk of financial disaster at disability or death and help provide financial security in retirement.
   B. Benefits are for the rich.
   C. You need to know where your taxes are going.
   D. All of the above.

---

2. To find out how much you've got coming from Social Security, all you have to do is:
   A. Look at your current pay stub and try to figure it out.
   B. Ask Social Security for a "Personal Earnings and Benefit Estimate Statement (PEBES)."
   C. Call your banker.
   D. Ask a stranger on the street.

---

3. When you consider how other income may affect your Social Security checks, remember:
   A. You can earn up to the earnings limit before your benefits are affected.
   B. Nonearned income will not affect your Social Security benefits.
   C. Federal income tax may be due on a portion of your Social Security benefits if you have high income.
   D. All of the above.

---

4. A worker who has earned average wages throughout his/her worklife can expect Social Security retirement benefits to replace what percent of his/her pre-retirement earnings?
   A. 10 percent
   B. 25 percent
   C. 42 percent
   D. 60 percent

---

5. A person working most of his/her career at minimum wages would have what percent of earnings replaced at full retirement age?
   A. About 90 percent
   B. About 60 percent
   C. About 100 percent
   D. About 20 percent

6. You should check the earnings credited to your Social Security account:
   A. Every 3 years
   B. Every 10 years
   C. Every 8 years
   D. Every year

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7. As a young person under 18, by the time you are ready to retire in 2027, the retirement age for full benefits will have moved from 65 to:
   A. Age 66
   B. Age 67
   C. Age 70
   D. None of the above

---

8. It's important for you to use Social Security in your financial planning because:
   A. Social Security is this nation's basic method of assuring a continuing income to you and your family if you become disabled, retire, or die.
   B. You should know what you're getting from participating in Social Security.
   C. Social Security is most effective when it is used a a base on which to build income to meet your needs in retirement, or if you should become disabled or die.
   D. All of the above.

---

9. The amount of the Social Security benefit depends on:
   A. Amount of savings and investments
   B. Amount of earnings posted to the Social Security record
   C. Amount of taxes paid
   D. Amount of private pension

---

10. Benefits may be paid to someone who:
   A. Retires from a job at age 62
   B. Has cancer and is unable to work
   C. Is 10 years old and whose father has died
   D. All of the above